

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Financial Statements

April 30, 2013 and 2012 (Unaudited)

(With Independent Auditors' Review Report Thereon)

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

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Independent Auditors' Review Report

The Members

Hugh L. Carey Battery Park City Authority

We have reviewed the accompanying financial statements of Hugh L. Carey Battery Park City Authority (the "Authority"), a component unit of the State of New York, which comprise the statements of net position as of April 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position (deficit) and cash flows for the six-month periods then ended, and the related notes to the financial statements.

Management's Responsibility

The Authority's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3j, the Authority has restated its financial statements as of and for the six-month period ended April 30, 2012 during the current period to retroactively implement Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

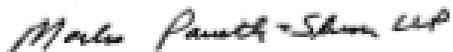
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but it has been compiled from financial information that is the representation of management. We have not audited or reviewed the supplementary information and, accordingly, we do not express an opinion or provide any assurance on such supplementary information.

Report on Supplementary Information

The supplementary information included on pages 57 through 66 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

Handwritten signature in cursive script, appearing to read "Mark P. Smith".

New York, NY
August 14, 2013

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Management's Discussion and Analysis

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Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the "Authority") and the Battery Park City Parks Conservancy (the "Conservancy"), a blended component unit of the Authority, collectively referred to as the "Organization", for the six-month periods ended April 30, 2013, 2012 and 2011. The basic financial statements, which include the statements of net position, the statements of revenues, expenses, and changes in net assets (deficit), the statements of cash flows, and the notes to the financial statements, provide information about the Organization in accordance with accounting principles generally accepted in the United States of America. All transactions between the Authority and the Conservancy have been eliminated. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Comparison of 2013 to 2012 and 2012 to 2011

Financial Highlights – 2013

- The six-month period ended April 30, 2013 yielded total operating revenues of \$117.8 million, an increase of 0.7% or \$870 thousand compared to the six-month period ended April 30, 2012. Payments in Lieu of Taxes ("PILOT") revenue totaling \$78.2 million (66.4% of the Authority's operating revenues for the six-month period ended April 30, 2013), decreased \$1.7 million or 2.1% compared to the six-month period ended April 30, 2012. Base rent increased \$1.5 million or 4.9% to \$31.2 million for the six-month period ended April 30, 2013. Civic facilities and other operating revenues increased \$906 thousand or 14% to \$7.4 million for the six-month period ended April 30, 2013. Total operating expenses increased \$299 thousand or 1.5% to \$20.7 million for the six-month period ended April 30, 2013.
- A provision for the transfer to The City of New York (the "City") of \$47.1 million in PILOT related to excess revenues was charged to expense for the six-month period ended April 30, 2013 (see note 12). Generally, the Authority's net position decreases with increases in the amount of excess revenues to be provided to the City, which has an adverse effect on the Authority's net position.
- Pursuant to the 2010 Agreement (see note 12), the Authority recorded a provision for the transfer of \$19.8 million for the six-month period ended April 30, 2013, as an expected payment to the City (HDC) 421-A fund.
- \$28.6 million remains in the Project Cost funds to be used for certain park, street, and other infrastructure improvements, the community center and other capital expenditures as of April 30, 2013 (see note 8).
- The Authority's 2003 Series B and C Junior Revenue Bonds (variable rate subordinate debt) auctions continued to fail (beginning on February 2008) in secondary markets. On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate ("LIBOR") based on the prevailing rating for the bond series. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200%, or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 1, 2012 through April 30, 2013 ranged from a low of 0.396% to a high of 0.428% on the 2003 Series B Bonds and from a low of 0.396% to a high of 0.426% on the 2003 Series C Bonds (see note 10).
- For the six-month period ended April 30, 2013, the Authority received \$4.3 million in insurance and Federal assistance advances and has paid out \$3.7 million for remediation work for damage caused by super storm Sandy. The Authority's management believes that all eligible claims with respect to this damage will be collected from its insurance carriers. Damages are being assessed and costs not covered by insurance are being submitted for reimbursement under Federal and State disaster relief programs, which

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management believes will cover the majority of these costs. Any unreimbursed damages will be paid by the Authority from the corporate insurance reserve fund.

- In March 2012, GASB issued GASB No. 65 *Items Previously Reported as Assets and Liabilities*. GASB No. 65 clarifies the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority reclassified certain items that were previously classified as assets and liabilities to deferred outflows and deferred inflows of resources. In addition, GASB No. 65 requires that all lease and debt issuance costs, except any portion related to prepaid bond insurance costs be recognized as an expense in the period incurred. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority retroactively applied this statement to prior periods and adjusted the beginning balance of net position (deficit) for the earliest period presented for all lease and debt issuance costs except prepaid bond insurance costs, which are being reported as an asset and recognized as an expense over the duration of the related debt. The format of the financial statements for the six-month periods ended April 30, 2012 and 2011 has been changed accordingly for comparative purposes. (see note 3(j))

Financial Highlights – 2012

- The six-month period ended April 30, 2012 yielded total operating revenues of \$116.9 million, an increase of 2.5% or \$2.8 million compared to the six-month period ended April 30, 2011. Payment in Lieu of Taxes (“PILOT”) revenue totaling \$79.9 million (68.3% of the Authority’s operating revenues for the six-month period ended April 30, 2012), increased \$3.4 million or 4.4% compared to the six-month period ended April 30, 2011. Base rent increased \$314 thousand or 1.1% to \$29.8 million for the six-month period ended April 30, 2012. Civic facilities and other operating revenues decreased \$746 thousand or 10.3% to \$6.5 million for the six-month period ended April 30, 2012. Total operating expenses increased \$807 thousand or 4% to \$20.4 million for the six-month period ended April 30, 2012.
- A provision for the transfer to The City of New York (the “City”) of \$41.9 million in PILOT related to excess revenues was charged to expense for the six-month period ended April 30, 2012 (see note 12). Generally, the Authority’s net position decreases with increases in the amount of excess revenues to be provided to the City, which has an adverse effect on the Authority’s net position.
- Pursuant to the 2010 Agreement (see note 12), the Authority recorded a provision for the transfer of \$24.6 million for the six-month period ended April 30, 2012, as an expected payment to the City (HDC) 421-A fund.
- \$35.3 million remains in the Project Cost funds to be used for certain park, street, and other infrastructure improvements, the community center and other capital expenditures as of April 30, 2012 (see note 8).
- The Authority’s 2003 Series B and C Junior Revenue Bonds (variable rate subordinate debt) auctions continued to fail (beginning on February 2008) in secondary markets. On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (“LIBOR”) based on the prevailing rating for the bond series. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200%, or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 1, 2011 through April 30, 2012 ranged from a low of 0.478% to a high of 0.592% on the 2003 Series B Bonds and from a low of 0.478% to a high of 0.592% on the 2003 Series C Bonds (see note 10).
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (“GASB No. 53”). GASB No. 53 addresses the recognition, measurement, and disclosure of

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information regarding derivative instruments for state and local governments. In accordance with GASB No. 53, effective for fiscal years beginning after June 15, 2009, the Authority evaluated the effectiveness of six interest rate exchange agreements ("Swaps"), determined the Swaps to be effective hedges and recorded the negative fair value of \$98.3 million and \$50.6 million as of April 30, 2012 and 2011, respectively, as both an asset for the accumulated decrease in the fair value of the interest rate swap agreements and a liability for the fair value of the Swaps (see notes 3j and 10).

- In June 2011, GASB issued GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 addresses the financial reporting for deferred outflows of resources, deferred inflows of resources, and net position. In accordance with GASB No. 63, beginning in the six-month period ended April 30, 2012, the Authority changed the format of the financial statements to comply with the new requirements and changed the Balance Sheets to Statements of Net Position, and the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) to the Statement of Revenues, Expenses, and Changes in Net Position (Deficit). In addition, the Authority is reporting the accumulated decrease in the fair value of interest rate swaps as a *deferred outflow* of Resources on the Statement of Net Position. The format of the financial statements for April 30, 2011 have been changed accordingly for comparative purposes (see note 3j).

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Summary Statement of Net Position

The summary statement of net position presents the financial position of the Organization. The net position (deficit) is the difference between total assets plus total deferred outflows of resources and total liabilities. A summarized comparison of the Organization's assets, deferred outflow of resources, liabilities, and net position (deficit) at April 30, 2013, 2012 and 2011 is as follows:

	<u>April 30</u>			<u>2013 vs</u>	<u>2012 vs</u>
	<u>2013</u>	<u>2012 (Restated)</u>	<u>2011 (Restated)</u>	<u>2012</u>	<u>2011</u>
Assets:					
Bank deposits, investments and rents and other receivables	\$ 10,178,431	14,174,315	9,039,800	(3,995,884)	5,134,515
Bond resolution restricted assets (current and noncurrent)	366,067,060	386,074,364	386,617,285	(20,007,304)	(542,921)
Battery Park City project assets, net	485,746,682	489,138,376	477,128,491	(3,391,694)	12,009,885
Other current and noncurrent assets	<u>173,835,966</u>	<u>127,673,572</u>	<u>250,461,177</u>	<u>46,162,394</u>	<u>(122,787,605)</u>
Total assets	<u>1,035,828,139</u>	<u>1,017,060,627</u>	<u>1,123,246,753</u>	<u>18,767,512</u>	<u>(106,186,126)</u>
Deferred Outflows of Resources:					
Accumulated decrease in fair value of interest rate swaps	98,413,896	98,275,601	50,575,013	138,295	47,700,588
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	<u>17,702,853</u>	<u>19,102,757</u>	<u>20,502,686</u>	<u>(1,399,904)</u>	<u>(1,399,929)</u>
Total deferred outflows of Resources	<u>116,116,749</u>	<u>117,378,358</u>	<u>71,077,699</u>	<u>(1,261,609)</u>	<u>46,300,659</u>
Total assets and deferred outflows of resources	<u>\$ 1,151,944,888</u>	<u>1,134,438,985</u>	<u>1,194,324,452</u>	<u>17,505,903</u>	<u>(59,885,467)</u>
Liabilities:					
Current liabilities	\$ 313,641,756	279,359,534	361,150,256	34,282,222	(81,790,722)
Long-term liabilities	<u>1,476,431,540</u>	<u>1,508,417,285</u>	<u>1,491,542,412</u>	<u>(31,985,745)</u>	<u>16,874,873</u>
Total liabilities	<u>1,790,073,296</u>	<u>1,787,776,819</u>	<u>1,852,692,668</u>	<u>2,296,477</u>	<u>(64,915,849)</u>
Net Position (deficit):					
Invested in capital assets, net of related debt	(5,251,269)	(4,756,998)	(4,393,861)	(494,271)	(363,137)
Restricted	87,371,445	85,246,755	101,692,544	2,124,690	(16,445,789)
Unrestricted	<u>(720,248,584)</u>	<u>(733,827,591)</u>	<u>(755,666,899)</u>	<u>13,579,007</u>	<u>21,839,308</u>
Total net deficit	<u>(638,128,408)</u>	<u>(653,337,834)</u>	<u>(658,368,216)</u>	<u>15,209,426</u>	<u>5,030,382</u>
Total liabilities and net deficit	<u>\$ 1,151,944,888</u>	<u>1,134,438,985</u>	<u>1,194,324,452</u>	<u>17,505,903</u>	<u>(59,885,467)</u>

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Assets

2013 vs. 2012

At April 30, 2013, the Organization maintained total assets of \$1.04 billion; \$18.8 million higher than total assets of \$1.02 billion at April 30, 2012.

2012 vs. 2011

At April 30, 2012, the Organization maintained total assets of \$1.02 billion; \$106.2 million lower than total assets of \$1.12 billion at April 30, 2011.

Bank Deposits, Investments, rents and other Receivables

2013 vs. 2012

Bank deposits, investments, and rents and other receivables held at April 30, 2013 decreased by \$4 million over the same period last year. Investments and bank deposits increased by \$704 thousand. Rents and other receivables decreased by \$4.7 million, primarily due to the decrease in amounts receivable from the City for Pier A restoration expenses of \$5.6 million, the decrease in amounts due from Community Center operations and Goldman Sachs of \$1.4 million and \$1.5 million, respectively, and the increase in Superstorm Sandy insurance receivables of \$3.9 million.

2012 vs. 2011

Bank deposits, investments, and rents and other receivables held at April 30, 2012 increased by \$5.1 million over the same period the prior year. Investments and bank deposits decreased by \$792 thousand, rents and other receivables increased by \$5.9 million, primarily due to the increase in amounts receivable from the City for Pier A restoration expenses of \$2.9 million and the increase in amounts due from Community Center operations and Goldman Sachs of \$1.4 million and \$1.5 million, respectively.

Bond Resolution Restricted Assets

2013 vs. 2012

Bond Resolution restricted assets are funds and accounts established in accordance with the 2003 and 2009 Revenue Bond resolutions. Such assets of \$366.1 million at April 30, 2013 were \$20 million lower than the \$386.1 million of assets held at April 30, 2012 (see note 8). Funds held in the Pledged Revenue Fund ("PRF") at April 30, 2013 were \$7 million more than funds held at April 30, 2012. In addition, at April 30, 2013, funds for the designated purposes of paying debt service and operating expenses were funded \$2.3 million more and \$500 thousand less, respectively, more than at April 30, 2012 due to timing differences and funding of debt service.

Funds held in the Residual Fund for payment to the City at April 30, 2013 were \$21.2 million lower due to less excess revenues generated from the fiscal period ended October 31, 2012 compared to 2011(see note 8).

Funds held under the resolution for project infrastructure and certain other asset costs were \$28.6 million as of April 30, 2013, \$6.7 million less than April 30, 2012.

2012 vs. 2011

Bond Resolution restricted assets are funds and accounts established in accordance with the 2003 and 2009 Revenue Bond resolutions. Such assets of \$386.1 million at April 30, 2012 were \$543 thousand lower than the \$386.6 million of assets held at April 30, 2011 (see note 8). Funds held in the PRF at April 30, 2012 were

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\$6.4 million more than funds held at April 30, 2011. In addition, at April 30, 2012, funds for the designated purposes of paying debt service and operating expenses were funded \$1.2 million more and \$800 thousand less respectively, more than at April 30, 2011 due to timing differences and funding of debt service.

Funds held in the Residual Fund for payment to the City at April 30, 2012 were \$14.3 million higher due to additional excess revenues generated for the fiscal period ended October 31, 2011 compared to 2010, coupled with interest earned on funds held (see note 8).

Funds held under the resolution for project infrastructure and certain other asset costs were \$35.3 million as of April 30, 2012, \$21.8 million less than April 30, 2011.

Project Assets

At April 30, 2013, the Authority's investment in project assets, net of accumulated depreciation was \$485.7 million, a decrease of \$3.4 million over April 30, 2012. The Battery Park City project ("Project") consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 10.2 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, three public schools, a public library, and approximately 8,600 residential units (see notes 2, 5, and 6).

The Authority's project assets include land, site improvements, and a residential building constructed by the Authority on Site 22. Additionally, condominium units owned by the Authority in Sites 1, 3, 16/17 and a community center on Sites 23 and 24, and related infrastructure improvements are included in project assets. The balances at April 30, 2013, 2012, and 2011 are as follows:

	<u>2013</u>	<u>April 30 2012</u>	<u>2011</u>	<u>2013 vs 2012</u>	<u>2012 vs 2011</u>
Land	\$ 83,015,653	83,015,653	83,015,653	—	—
Site improvements	375,251,472	372,948,314	368,995,437	2,303,158	3,952,877
Residential building and condominium units	<u>132,577,067</u>	<u>129,970,660</u>	<u>113,826,811</u>	<u>2,606,407</u>	<u>16,143,849</u>
	590,844,192	585,934,627	565,837,901	4,909,565	20,096,726
Less accumulated depreciation	<u>105,097,510</u>	<u>96,796,251</u>	<u>88,709,410</u>	<u>(8,301,259)</u>	<u>(8,086,841)</u>
Total Battery Park City project assets	<u>\$ 485,746,682</u>	<u>489,138,376</u>	<u>477,128,491</u>	<u>(3,391,694)</u>	<u>12,009,885</u>

2013 vs. 2012

At April 30, 2013, the increase to site improvements over April 30, 2012 of \$2.3 million relates to improvements to infrastructure surrounding the Goldman building, park improvements in the north and south neighborhoods, the esplanade and restoration of piles, as well as other minor capital improvements.

The \$2.6 million increase in residential building and condominium units over April 30, 2012 primarily relates to the build out of a community center and ball field maintenance facility at Sites 23 and 24.

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2012 vs. 2011

At April 30, 2012, the increase to site improvements over April 30, 2011 of \$4 million relates to improvements to infrastructure surrounding the Goldman building, park improvements in the north and south neighborhoods, the esplanade and restoration of piles, as well as other minor capital improvements.

The \$16.1 million increase in residential building and condominium units over April 30, 2011 primarily relates to the build out of a community center and ball field maintenance facility at Sites 23 and 24.

Other Current and Noncurrent Assets

Other current and noncurrent assets at April 30, 2013, 2012, and 2011 are as follows:

	April 30			2013 vs 2012	2012 vs 2011
	2013	2012 (Restated)	2011 (Restated)		
Residential lease required funds	\$ 22,142,151	21,340,720	20,218,112	801,431	1,122,608
Corporate-designated, escrowed, and OPEB funds	125,391,984	79,169,011	202,293,487	46,222,973	(123,124,476)
Bond insurance costs, net	21,050,542	21,987,285	22,926,714	(936,743)	(939,429)
Other assets	5,251,289	5,176,556	5,022,864	74,733	153,692
Total other current and noncurrent assets	\$ 173,835,966	127,673,572	250,461,177	46,162,394	(122,787,605)

2013 vs. 2012

Total other current and noncurrent assets increased \$46.2 million from \$127.7 million at April 30, 2012 to \$173.8 million at April 30, 2013.

Residential lease required funds increased \$801 thousand from \$21.3 million at April 30, 2012 to \$22.1 million at April 30, 2013 and relate to security deposits received from ground lease tenants, primarily deposits from Site 3 and Site H/I of \$432 thousand and \$321 thousand, respectively.

Overall, corporate-designated, escrowed, and OPEB funds increased \$46.2 million from April 30, 2012. For the six-month period ended April 30, 2013, \$46.1 million of fiscal year 2012 excess revenues was transferred to the Joint Purpose Fund to be transferred to the City in accordance with the 2010 Agreement.

Amortization of bond insurance costs decreased bond insurance costs by \$937 thousand.

2012 vs. 2011

Total other current and noncurrent assets decreased \$122.8 million from \$250.5 million at April 30, 2011 to \$127.7 million at April 30, 2012.

Residential lease required funds increased \$1.1 million from \$20.2 million at April 30, 2011 to \$21.3 million at April 30, 2012 and relate to security deposits received from ground lease tenants, primarily deposits from Site 3, Site D, and Site H/I of \$557 thousand, \$214 thousand and \$459 thousand, respectively, and returns of security deposits for Pier A of \$125 thousand.

Overall, corporate-designated, escrowed, and OPEB funds decreased \$123.1 million from April 30, 2011 primarily due to excess revenues transferred from the Joint Purpose Fund. \$104.4 million of fiscal year 2011

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excess revenues held in the Joint Purpose Fund was transferred to the City in accordance with the 2010 Agreement prior to the period ended April 30, 2012. A payment of \$20.6 million was made in February 2012 to the Port Authority of New York & New Jersey ("PANYNJ") from the Special Fund (see note 19c). In addition, deposits to OPEB funds of \$2.2 million and interest earnings on funds were offset by \$1.7 million in payments from corporate-designated funds for the reconstruction and repair of infrastructure.

Amortization of bond insurance costs decreased bond insurance costs by \$939 thousand.

Deferred Outflows of Resources

Deferred Outflows of Resources at April 30, 2013, 2012, and 2011 are as follows:

	April 30			2013 vs 2012	2012 vs 2011
	2013	2012 (Restated)	2011 (Restated)		
Deferred Outflows of Resources:					
Accumulated decrease in fair value of interest rate swaps	98,413,896	98,275,601	50,575,013	138,295	47,700,588
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	17,702,853	19,102,757	20,502,686	(1,399,904)	(1,399,929)
Total deferred outflows of Resources	<u>116,116,749</u>	<u>117,378,358</u>	<u>71,077,699</u>	<u>(1,261,609)</u>	<u>46,300,659</u>

2013 vs. 2012

Accumulated decrease in fair value of interest rate swaps increased by \$138 thousand from April 30, 2012 to April 30, 2013.

Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds decreased by \$1.4 million, from April 30, 2012 to April 30, 2013, due to the current period amortization.

In March 2012, GASB issued GASB No. 65 *Items Previously Reported as Assets and Liabilities*. GASB No. 65 clarifies the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority reclassified certain items that were previously classified as assets and liabilities to deferred outflows and deferred inflows of resources. In addition, GASB No. 65 requires that all debt issuance costs, except any portion related to prepaid bond insurance costs, be recognized as an expense in the period incurred. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority retroactively applied this statement to prior periods and adjusted the beginning balance of net position (deficit) for the earliest period presented for all debt issuance costs except prepaid bond insurance costs, which are being reported as an asset and recognized as an expense over the duration of the related debt. The format of the financial statements for April 30, 2012, and 2011 has been changed accordingly for comparative purposes.

2012 vs. 2011

Accumulated decrease in fair value of interest rate swaps increased by \$47.7 million from April 30, 2011 to April 30, 2012.

Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds decreased by \$1.4 million, from April 30, 2011 to April 30, 2012, due to the current period amortization.

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In June 2011, GASB issued GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 addresses the financial reporting for deferred outflows of resources and deferred inflows of resources. In accordance with GASB No. 63, beginning with the period ended April 30, 2012, the Authority changed the format of the financial statements to comply with the new requirements which change the Balance Sheets to Statements of Net Position, and the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) to the Statement of Revenues, Expenses, and Changes in Net Position (Deficit). In addition, the Authority is reporting the accumulated decrease in the fair value of interest rate swaps as a deferred outflow of resources on the Statement of Net Position. The Authority changed the format of the financial statements for April 30, 2011 (see note 3j).

In June 2008, GASB issued GASB No. 53. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments for state and local governments. In accordance with GASB No. 53, effective for fiscal years beginning after June 15, 2009, the Authority evaluated the effectiveness of six Swaps, determined the Swaps to be effective hedges and recorded the negative fair value of \$98.3 million, \$50.6 million, and \$45.9 million at April 30, 2012, 2011, and 2010, respectively, as both an asset (now reported as a deferred outflow of resources) for the accumulated decrease in the fair value of the interest rate swap agreements and a liability for the fair value of the Swaps (see notes 3j and 10). The increase in the negative fair value from the six-month period ended April 30, 2011 to April 30, 2012 is \$47.7 million.

Liabilities

Total liabilities at April 30, 2013, 2012 and 2011 are as follows:

	<u>April 30</u>			<u>2013 vs 2012</u>	<u>2012 vs 2011</u>
	<u>2013</u>	<u>2012 (Restated)</u>	<u>2011 (Restated)</u>		
Current liabilities:					
Accrued interest on bonds	\$ 17,676,011	18,162,829	18,552,684	(486,818)	(389,855)
Accounts payable and other liabilities	13,098,364	9,025,210	12,589,940	4,073,154	(3,564,730)
Due to the City of New York	150,356,587	129,483,298	150,265,459	20,873,289	(20,782,161)
Due to the City of New York -2010 Agreement	65,951,155	61,657,016	119,988,247	4,294,139	(58,331,231)
Due to Port Authority of NY & NJ	—	18,351	—	(18,351)	18,351
Due to NYC School Construction Authority	1,898,808	—	—	1,898,808	—
Unearned revenue	42,672,382	40,154,555	39,539,884	2,517,827	614,671
Security and other deposits	88,449	88,275	134,042	174	(45,767)
2003 Revenue Bonds	21,590,000	20,655,000	19,825,000	935,000	830,000
2009 Revenue Bonds	310,000	115,000	255,000	195,000	(140,000)
Total current liabilities	313,641,756	279,359,534	361,150,256	34,282,222	(81,790,722)
Noncurrent liabilities:					
Unearned revenue	298,407,583	310,275,128	322,142,674	(11,867,545)	(11,867,546)
Security and other deposits	22,788,783	21,846,456	20,729,434	942,327	1,117,022
Other post employment benefits - Authority	18,428,692	18,019,312	17,248,085	409,380	771,227
Other post employment benefits - Conservancy	10,908,843	9,370,459	8,200,291	1,538,384	1,170,168
Fair value of interest rate swaps	98,413,896	98,275,601	50,575,013	138,295	47,700,588
Bonds outstanding:					
2003 Revenue Bonds	939,607,226	962,370,964	984,199,702	(22,763,738)	(21,828,738)
2009 Revenue Bonds	87,876,517	88,259,365	88,447,213	(382,848)	(187,848)
Total noncurrent liabilities	1,476,431,540	1,508,417,285	1,491,542,412	(31,985,745)	16,874,873
Total liabilities	\$ 1,790,073,296	1,787,776,819	1,852,692,668	2,296,477	(64,915,849)

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The Organization's total liabilities increased \$2.3 million from \$1.788 billion at April 30, 2012 to \$1.79 billion at April 30, 2013.

Total liabilities comprise amounts due to the City and State, accrued interest on bonds, unearned revenue, security and other deposits, post employment benefits, outstanding debt, and accounts payable and accrued expenses.

The \$2.3 million increase in total liabilities is due to:

- a \$487 thousand decrease in accrued interest payable on bonds from \$18.2 million at April 30, 2012 to \$17.7 million at April 30, 2013 resulting from the paydown of principal on the 2003 Revenue Bonds. This decrease was also due to lower interest rates paid on the Authority's variable debt (see note 10). The reset rate for failed auction rate securities is based on a percentage of 30-day LIBOR which averaged .26% during the six-month period ended April 30, 2012, but averaged .20% during the six-month period ended April 30, 2013.
- a \$4.1 million increase in accounts payable and other liabilities from \$9 million at April 30, 2012 to \$13.1 million at April 30, 2013, primarily due to Super Storm Sandy insurance advances received of \$4.3 million (see note 19(h)).
- the liability due to the City totaling \$150.4 million includes a \$47.1 million provision recorded for the period ended April 30, 2013 representing approximately half of the estimated fiscal 2013 PILOT related excess revenues to be transferred to the City and \$103.3 million generated from the previous fiscal year ended October 31, 2012 which was not paid as of April 30, 2013. The \$150.4 million due to the City was \$20.9 million higher compared to the amount due at April 30, 2012 (see note 12).
- the liability due to the City under the 2010 Agreement includes a \$19.8 million provision recorded for the period ended April 30, 2013 representing approximately half of the estimated fiscal 2013 amount expected payable under the 2010 Agreement and \$46.1 million from the previous fiscal year ended October 31, 2012 which was not paid as of April 30, 2013. The \$66 million due to the City under the 2010 Agreement was \$4.3 million higher compared to the amount due at April 30, 2012.
- the negative fair value of the Swaps were \$98.4 million and \$98.3 million as of April 30, 2013 and April 30, 2012, respectively. The liability for the accumulated decrease in the fair value of the interest rate swap agreements from year over year increased by \$138 thousand.
- a \$9.3 million decrease in unearned revenue from upfront lease payments from \$350.4 million at April 30, 2012 primarily due to revenue recognized on leases such as site 26 (\$2.7 million), sites 23 & 24 (\$2.3 million) and site 16/17 (\$2.4 million) as well as other upfront lease payments received during prior years. (see note 3(d)).
- a \$943 thousand increase in security and other deposits to \$22.8 million at April 30, 2013 relating to the security deposits received from Site 3, Site H/I, and North Cove Marina of \$438 thousand, \$322 thousand, and \$142 thousand, respectively.
- a net \$409 thousand increase in other post employment benefits for the Authority relating to the annual normal cost incurred for current employees and interest expense, offset by actual costs for retiree benefits paid. In accordance with GASB Statement No. 45 (see note 3(i)), a \$18.4 million net accrued postretirement medical benefit liability for all eligible current and retired employees is reported as of April 30, 2013. The annual required OPEB obligation is increased by normal costs for current employees and

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interest expense and offset by an amortization credit and the actual cost of retiree benefits paid during the period (see note 17).

- a \$1.5 million increase in other post employment benefits for the Conservancy relating to the annual normal cost incurred for current employees and interest expense. In accordance with GASB Statement No. 45 (see note 3(i)), a \$10.9 million net accrued postretirement medical benefit liability for all eligible current and retired employees is reported as of April 30, 2013. The annual required OPEB obligation is increased by normal costs for current employees and interest expense (see note 18).
- a \$21.9 million decrease in 2003 Revenue Bonds outstanding relating to a payment of principal of \$20.7 million and a \$1.2 million decrease due to the amortization of the net bond premium (see note 15).
- a \$188 thousand decrease in 2009 Revenue Bonds outstanding relating to the payment of principal of \$115 thousand and a \$73 thousand decrease due to the amortization of the net bond premium (see note 15).

2012 vs. 2011

The Organization's total liabilities decreased \$64.9 million from \$1.85 billion at April 30, 2011 to \$1.79 billion at April 30, 2012.

Total liabilities comprise amounts due to the City and State, accrued interest on bonds, unearned revenue, security and other deposits, post employment benefits, outstanding debt, and accounts payable and accrued expenses.

The \$64.9 million decrease in total liabilities is due to:

- a \$390 thousand decrease in accrued interest payable on bonds from \$18.6 million at April 30, 2011 to \$18.2 million at April 30, 2012 resulting from the accrued interest on the 2009 Revenue Bonds for a full six-month period. This decrease was offset by slightly higher interest rates paid on the Authority's variable debt (see note 10). The reset rate for failed auction rate securities is based on a percentage of 30-day LIBOR which averaged .25% during the six-month period ended April 30, 2011, but averaged .26% during the six-month period ended April 30, 2012.
- a \$3.6 million decrease in accounts payable and other liabilities from \$12.6 million at April 30, 2011 to \$9 million at April 30, 2012, primarily due to a decrease in amounts due to vendors of \$1.6 million and the decrease in the Goldman PILOT credit of \$2.3 million (see note 14).
- the liability due to the City totaling \$129.5 million includes a \$41.9 million provision recorded for the period ended April 30, 2012 representing approximately half of the estimated fiscal 2012 PILOT related excess revenues to be transferred to the City and \$87.6 million generated from the previous fiscal year ended October 31, 2011 which was not paid as of April 30, 2012. The \$129.5 million due to the City was \$20.8 million lower compared to the amount due at April 30, 2011 (see note 12).
- the liability due to the City under the 2010 Agreement includes a \$24.6 million provision recorded for the period ended April 30, 2012 representing approximately half of the estimated fiscal 2012 amount expected payable under the 2010 Agreement and \$37.1 million from the previous fiscal year ended October 31, 2011 which was not paid as of April 30, 2012. The \$61.7 million due to the City under the 2010 Agreement was \$58.3 million lower compared to the amount due at April 30, 2011.
- the negative fair value of the Swaps were \$98.3 million and \$50.6 million as of April 30, 2012 and April 30, 2011, respectively. The liability for the accumulated decrease in the fair value of the interest rate swap agreements from year over year increased by \$ 47.7 million.

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- a \$11.3 million decrease in unearned revenue from \$361.7 million at April 30, 2011 primarily due to revenue recognized on leases such as site 26 (\$2.7 million), sites 23 & 24 (\$2.3 million) and site 16/17 (\$2.4 million) as well as other upfront lease payments received during prior year s (see note 3(d)).
- a \$1.1 million increase in security and other deposits to \$21.9 million at April 30, 2012 relating to the security deposits received from Site 3, Site D, and Site H/I of \$536 thousand, \$215 thousand, and \$459 thousand, respectively, offset by the use of funds from prior deposits for the public library of \$46 thousand and the return of Pier A Security deposits of \$75 thousand.
- a net \$771 thousand increase in other post employment benefits for the Authority relating to the annual normal cost incurred for current employees and interest expense, offset by actual costs for retiree benefits paid. In accordance with GASB Statement No. 45 (see note 3(i)), a \$18 million net accrued postretirement medical benefit liability for all eligible current and retired employees is reported as of April 30, 2012. The annual required OPEB obligation is increased by normal costs for current employees and interest expense and offset by an amortization credit and the actual cost of retiree benefits paid during the period (see note 17).
- a \$1.2 million increase in other post employment benefits for the Conservancy relating to the annual normal cost incurred for current employees and interest expense. In accordance with GASB Statement No. 45 (see note 3(i)), a \$9.4 million net accrued postretirement medical benefit liability for all eligible current and retired employees is reported as of April 30, 2012. The annual required OPEB obligation is increased by normal costs for current employees and interest expense (see note 18).
- a \$21 million decrease in 2003 Revenue Bonds outstanding relating to a payment of principal of \$19.8 million and a \$1.2 million decrease due to the amortization of the net bond premium (see note 15).
- a \$328 thousand decrease in 2009 Revenue Bonds outstanding relating to the payment of principal of \$255 thousand and a \$73 thousand decrease due to the amortization of the net bond premium (see note 15).

Net Position (Deficit)

	April 30			2013 vs	2012 vs
	2013	2012 (Restated)	2011 (Restated)	2012	2011
Net Position (deficit):					
Invested in capital assets, net of related debt	(5,251,269)	(4,756,998)	(4,393,861)	(494,271)	(363,137)
Restricted	87,371,445	85,246,755	101,692,544	2,124,690	(16,445,789)
Unrestricted	(720,248,584)	(733,827,591)	(755,666,899)	13,579,007	21,839,308
Total net deficit	(638,128,408)	(653,337,834)	(658,368,216)	15,209,426	5,030,382

2013 vs. 2012

The change in total net position from April 30, 2012 represents a positive change in the deficit position of \$15.2 million from \$653.3 million at April 30, 2012 to \$638.1 million at April 30, 2013.

The net position of assets invested in capital assets, net of related debt, was a deficit of \$5.3 million and \$4.8 million at April 30, 2013 and 2012, respectively. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be

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used to liquidate these liabilities. The Organization's \$87.4 million and \$85.2 million of restricted net assets at April 30, 2013 and 2012, respectively, represent resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under bond resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling \$720.2 million at April 30, 2013 resulting primarily from debt issued for noncapital purposes of \$521.7 million, and upfront lease payments and deferred PILOT revenue, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

GASB No. 65 requires that all lease and debt issuance costs, except any portion related to prepaid insurance costs, be recognized as an expense in the period incurred. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority retroactively applied this statement to prior periods and adjusted the beginning balance of net position (deficit) for the earliest period presented for all lease and debt issuance costs except prepaid insurance costs, which are being reported as an asset and recognized as an expense over the duration of the related debt. The format of the financial statements for April 30, 2012, and 2011 has been changed accordingly for comparative purposes. The effect of the adoption of GASB 65 resulted in an increase in the beginning net deficit of \$21.2 million, \$22.2 million, and \$23.3 million for the six-month periods ending April 2013, 2012, and 2011, respectively.

2012 vs. 2011

The change in total net position from April 30, 2011 represents a positive change in the deficit position of \$5 million from \$658.4 million at April 30, 2011 to \$653.3 million at April 30, 2012.

The net position of assets invested in capital assets, net of related debt, was a deficit of \$4.8 million and \$4.4 million at April 30, 2012 and 2011, respectively. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Organization's \$85.2 million and \$101.7 million of restricted net assets at April 30, 2012 and 2011, respectively, represent resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under bond resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling \$733.8 million at April 30, 2012 resulting primarily from debt issued for noncapital purposes of \$533.6 million, and upfront lease payments and deferred PILOT revenue, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

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Summary Schedule of Revenues, Expenses, and Changes in Net Deficit

Below is a summary of the Organization's revenues, expenses, and changes in net deficit for the six-month periods ended April 30, 2013, 2012, and 2011:

	April 30			2013 vs	2012 vs
	2013	2012(Restated)	2011(Restated)	2012	2011
Operating revenues:					
Revenues from ground leases:					
Base rent	\$ 31,223,849	29,766,254	29,452,557	1,457,595	313,697
Supplemental rent	999,850	801,879	917,312	197,971	(115,433)
Payments in lieu of real estate taxes (PILOT)	78,167,873	79,859,277	76,498,464	(1,691,404)	3,360,813
Civic facilities payments and other	7,381,883	6,475,754	7,222,026	906,129	(746,272)
Total operating revenues	<u>117,773,455</u>	<u>116,903,164</u>	<u>114,090,359</u>	<u>870,291</u>	<u>2,812,805</u>
Operating expenses:					
Wages and related benefits	6,285,324	7,041,659	6,930,453	(756,335)	111,206
OPEB - The Authority	219,519	610,412	573,084	(390,893)	37,328
OPEB - The Conservancy	950,873	612,495	569,352	338,378	43,143
Other operating and administrative expenses	8,221,517	7,255,488	6,620,708	966,029	634,780
Depreciation and amortization	5,064,600	4,922,299	4,941,761	142,301	(19,462)
Total operating expenses	<u>20,741,833</u>	<u>20,442,353</u>	<u>19,635,358</u>	<u>299,480</u>	<u>806,995</u>
Operating income	<u>97,031,622</u>	<u>96,460,811</u>	<u>94,455,001</u>	<u>570,811</u>	<u>2,005,810</u>
Nonoperating revenues (expenses):					
Investment and other income	1,434,142	3,037,541	(76,228)	(1,603,399)	3,113,769
Other revenue	226,130	—	514,015	226,130	(514,015)
Interest expense, net	(18,254,045)	(18,956,928)	(19,355,789)	702,883	398,861
Provision for transfer to the City of New York	(47,072,824)	(41,859,513)	(40,050,010)	(5,213,311)	(1,809,503)
Provision for transfer to the City of New York - 2010 Agreement	(19,808,177)	(24,642,329)	(15,575,004)	4,834,152	(9,067,325)
Pier A construction pass through NYC	(2,484,545)	—	—	(2,484,545)	—
Total nonoperating expenses, net	<u>(85,959,319)</u>	<u>(82,421,229)</u>	<u>(74,543,016)</u>	<u>(3,538,090)</u>	<u>(7,878,213)</u>
Change in net position	11,072,303	14,039,582	19,911,985	(2,967,279)	(5,872,403)
Net deficit, beginning of period	(628,019,616)	(645,154,626)	(655,018,402)	17,135,010	9,863,776
Effect of adoption of GASB 65	(21,181,095)	(22,222,790)	(23,261,799)	1,041,695	1,039,009
Net deficit, beginning of period (restated)	<u>(649,200,711)</u>	<u>(667,377,416)</u>	<u>(678,280,201)</u>	<u>18,176,705</u>	<u>10,902,785</u>
Net deficit, end of period	\$ <u>(638,128,408)</u>	\$ <u>(653,337,834)</u>	\$ <u>(658,368,216)</u>	<u>15,209,426</u>	<u>5,030,382</u>

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Operating Revenue

2013 vs. 2012

Overall operating revenues for the six-month period ended April 30, 2013 totaled \$117.8 million, \$870 thousand higher than the six-month period ended April 30, 2012, \$116.9 million. Lease revenues consist primarily of base (land) rent and PILOT from long-term leaseholds.

Base rent increased \$1.5 million from \$29.8 million for the six-month period ended April 30, 2012. PILOT revenue totaling \$78.2 million (66.4% of the total operating revenues for the six-month period ended April 30, 2013), decreased by \$1.7 million over the six-month period ended April 30, 2012 and relates to 467a real estate tax abatements given in the current period. The change in civic facility payments and other is a \$906 thousand increase from \$6.5 million for the six-month period ended April 30, 2012 to \$7.4 million in April 30, 2013.

2012 vs. 2011

Overall operating revenues for the six-month period ended April 30, 2012 totaled \$116.9 million, \$2.8 million higher than the six-month period ended April 30, 2011, \$114.1 million. Lease revenues consist primarily of base (land) rent and PILOT from long-term leaseholds.

Base rent increased \$314 thousand from \$29.5 million for the six-month period ended April 30, 2011. PILOT revenue totaling \$79.9 million (68.3% of the total operating revenues for the six-month period ended April 30, 2012), increased by \$3.4 million over the six-month period ended April 30, 2011 and relates to increased PILOT revenue recognized in the current period due to reduced PILOT credits on sites recently completed coupled with assessed value increases and tax rate increases for commercial and residential sites effective July 2011. The change in civic facility payments and other is a \$746 thousand decrease from \$7.2 million for the six-month period ended April 30, 2011 to \$6.5 million in April 30, 2012.

Operating Expenses

2013 vs. 2012

Operating expenses totaled \$20.7 million for the six-month period ended April 30, 2013, representing a \$299 thousand increase compared to the six-month period ended April 30, 2012. The expenses include: wages and related benefits; other postemployment benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, and promotional; planning/design expenditures; and depreciation and amortization.

Wages and related benefits totaling \$6.3 million were \$756 thousand lower than the prior six-month period ended April 30, 2012.

OPEB expenses for the Authority decreased for the six-month period ended April 30, 2013 by \$391 thousand as compared to the six-month period ended April 30, 2012. This was due to lower normal and interest costs based on the recent triennial valuation that was performed. OPEB costs represent a pro rata share of annual interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45 (see note 17).

OPEB expenses for the Conservancy increased for the six-month period ended April 30, 2013 by \$338 thousand as compared to the six-month period ended April 30, 2012. This was due to higher normal and interest costs based on the recent triennial valuation that was performed. OPEB costs represent a pro rata share of annual interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45 (see note 18).

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Other operating and administrative expenses increased by \$966 thousand for the six-month period ended April 30, 2013, primarily due to increases in the NYS Cost Recovery of \$308 thousand, Asphalt Green Community Center of \$197 thousand, and PEPS Security of \$239 thousand, as compared to the six-month period ended April 30, 2012.

Depreciation and amortization expenses recorded for the six-month period ended April 30, 2013 of \$5.1 million were \$142 thousand higher than the six-month period ended April 30, 2012.

2012 vs. 2011

Operating expenses totaled \$20.4 million for the six-month period ended April 30, 2012, representing a \$807 thousand increase compared to the six-month period ended April 30, 2011. The expenses include: wages and related benefits; other postemployment benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, and promotional; planning/design expenditures; and depreciation and amortization.

Wages and related benefits totaling \$7 million were \$111 thousand higher than the prior six-month period ended April 30, 2011.

OPEB expenses for the Authority increased for the six-month period ended April 30, 2012 by \$37 thousand. This was due to the higher normal and interest costs offset by an ARC amortization credit determined by the triennial valuation. OPEB costs represent a pro rata share of annual interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45 (see note 17).

OPEB expenses for the Conservancy increased for the six-month period ended April 30, 2012 by \$43 thousand as compared to the six-month period ended April 30, 2011. This was due to higher normal and interest costs. OPEB costs represent a pro rata share of annual interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45 (see note 18).

Other operating and administrative expenses increased by \$635 thousand.

Depreciation and amortization expenses recorded for the six-month period ended April 30, 2012 of \$4.9 million were \$19 thousand lower than the six-month period ended April 30, 2011.

Nonoperating Revenues (Expenses)

2013 vs. 2012

Total nonoperating expenses, net, were \$3.5 million higher for the six-month period ended April 30, 2013 than the six-month period ended April 30, 2012. A provision for a transfer to the City of \$47.1 million in excess revenues was charged to expense for the six-month period ended April 30, 2013, an increase of \$5.2 million from the six-month period ended April 30, 2012. In addition, a provision for transfer to the City for a 421-A affordable housing fund of \$19.8 million was charged to expense for the six-month period ended April 30, 2013, a decrease of \$4.8 million from the six-month period ended April 30, 2012.

Investment and other income decreased by \$1.6 million primarily due to lower interest rates, the reduction in balances held and the composition of assets held during the six-month period ended April 30, 2013 compared to 2012. Other revenue increased \$226 thousand, primarily from a Muni Bond class action settlement. Net interest expense related to outstanding bonds decreased \$703 thousand compared to the six-month period ended April 30, 2012.

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2012 vs. 2011

Total nonoperating expenses, net, were \$7.9 million higher for the six-month period ended April 30, 2012 than the six-month period ended April 30, 2011. A provision for a transfer to the City of \$41.9 million in excess revenues was charged to expense for the six-month period ended April 30, 2012, an increase of \$1.8 million from the six-month period ended April 30, 2011. In addition, a provision for transfer to the City for a 421-A affordable housing fund of \$24.6 million was charged to expense for the six-month period ended April 30, 2012, an increase of \$9.1 million from the six-month period ended April 30, 2011.

Investment and other income increased by \$3.1 million primarily due to higher interest rates, the reduction in balances held and the composition of assets held during the six-month period ended April 30, 2012 compared to 2011. Other revenue decreased \$514 thousand. Net interest expense related to outstanding bonds decreased \$399 thousand compared to the six-month period ended April 30, 2011.

Change in Net Position

The total net deficit at April 30, 2013 and 2012 was \$638.1 million and \$653.3 million, respectively.

The total net deficit at April 30, 2012 and 2011 was \$653.3 million and \$658.4 million, respectively.

Other Information

Debt Administration – The 2003 Revenue Bonds, issued in October 2003, \$1.07 billion, included \$433 million (including a net premium) of senior lien and \$635 million of junior lien debt obligations. At April 30, 2013, the Authority was responsible for debt service on the 2003 Revenue Bonds of \$961 million (including the net premium):

	<u>Outstanding debt</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poor's (S&P)</u>
2003 Series Senior A Bonds	\$ 351,372,226	AAA	Aaa	AAA
2003 Series Junior B Bonds *	235,000,000	AA	Aa3	AAA
2003 Series Junior C Bonds *	374,825,000	AA	Aa3	AA+

* The junior lien debt obligations are insured and also carry underlying Fitch, S&P and Moody's ratings of AA, AA+ and Aa3, respectively.

The 2009 Revenue Bonds issued in December 2009, \$89 million, included \$56.6 million of federally taxable Build America Bonds and \$32.5 million (including a net premium) of tax-exempt bonds. At April 30, 2013, the Authority was responsible for debt service on the 2009 Revenue Bonds of \$88.2 million:

	<u>Outstanding debt</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard & Poor's (S&P)</u>
2009 Senior Revenue A Bonds	\$ 56,600,000	AAA	Aaa	Not rated
2009 Senior Revenue B Bonds	31,586,517	AAA	Aaa	Not rated

Requests for Information – This financial report is designed to provide a general overview of the Organization's finances for all persons with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Vice President, Community Relations/Press, One World Financial Center, 24th Floor, New York, NY 10281. The Authority's Web site is: www.bpca.ny.gov.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Statements of Net Position

April 30, 2013 and 2012 (Unaudited)

Assets	2013	2012 (Restated)
Current assets:		
Bank deposits	\$ 490,064	398,007
Investments (note 3(e))	1,166,434	554,046
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of \$750,616 in 2013 and \$444,185 in 2012) (note 13)	8,521,933	13,222,262
2003 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 10)	250,625,030	264,350,356
2009 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 11)	2,826,453	2,635,153
Corporate-designated and escrowed funds (note 3(e))	49,098,455	6,009,107
Total current assets	<u>312,728,369</u>	<u>287,168,931</u>
Noncurrent assets:		
Restricted assets:		
2003 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 10)	86,859,379	86,408,682
2009 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 11)	25,756,198	32,680,173
Residential lease required funds (note 3(e))	22,142,151	21,340,720
Corporate-designated, escrowed, and OPEB funds (note 3(e), 17 and 18)	76,293,529	73,159,904
Bond insurance costs, less accumulated amortization of \$8,899,070 in 2013 and \$7,962,326 in 2012 (note 3c)	21,050,542	21,987,285
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3(c), and 4)	485,746,682	489,138,376
Other assets	5,251,289	5,176,556
Total noncurrent assets	<u>723,099,770</u>	<u>729,891,696</u>
Total assets	<u>1,035,828,139</u>	<u>1,017,060,627</u>
Deferred Outflows of Resources		
Accumulated decrease in fair value of interest rate swaps (note 3(j))	98,413,896	98,275,601
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds (note 3(j))	17,702,853	19,102,757
Total deferred outflows of resources	<u>116,116,749</u>	<u>117,378,358</u>
Total assets and deferred outflows of resources	<u>\$ 1,151,944,888</u>	<u>1,134,438,985</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Statements of Net Position
April 30, 2013 and 2012 (Unaudited)

Liabilities and Net Position	2013	2012 (Restated)
Current liabilities:		
Accrued interest on bonds	\$ 17,676,011	18,162,829
Accounts payable and other liabilities (note 14)	13,098,364	9,025,210
Due to the City of New York (note 12)	150,356,587	129,483,298
Due to the City of New York - 2010 Agreement (note 12)	65,951,155	61,657,016
Due to the Port Authority of New York & New Jersey (Note 19(f))	—	18,351
Due to NYC School Construction Authority	1,898,808	—
Unearned revenue (note 3(d)):		
PILOT revenue	27,596,258	26,742,675
Base rent and other revenue	15,076,124	13,411,880
Security and other deposits	88,449	88,275
2003 Revenue Bonds (notes 8, 9, 10, and 15)	21,590,000	20,655,000
2009 Revenue Bonds (notes 8, 9, 11, and 15)	310,000	115,000
	313,641,756	279,359,534
Noncurrent liabilities:		
Unearned revenue (note 3(d)):		
Base rent and other revenue	298,407,583	310,275,128
Security and other deposits	22,788,783	21,846,456
OPEB - Battery Park City Authority (note 17)	18,428,692	18,019,312
OPEB - Battery Park City Parks Conservancy (note 18)	10,908,843	9,370,459
Fair value of interest rate swaps	98,413,896	98,275,601
Bonds outstanding (notes 8, 9, 10 and 11):		
2003 Revenue Bonds, less accumulated amortization of \$11,198,746 in 2013 and \$10,025,008 in 2012	939,607,226	962,370,964
2009 Revenue Bonds, less accumulated amortization of \$244,491 in 2013 and \$171,642 in 2012	87,876,517	88,259,365
	1,476,431,540	1,508,417,285
Total noncurrent liabilities		
Total liabilities	1,790,073,296	1,787,776,819
Net position (deficit) (note 3(f)):		
Invested in capital assets, net of related debt	(5,251,269)	(4,756,998)
Restricted:		
Debt service	85,548,237	84,731,183
Under bond resolutions and other agreements	1,823,208	515,572
Unrestricted (deficit)	(720,248,584)	(733,827,591)
	(638,128,408)	(653,337,834)
Total net position (deficit)		
Total liabilities and net position (deficit)	\$ 1,151,944,888	1,134,438,985

See accompanying notes to financial statements and independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Statements of Revenues, Expenses, and Changes in Net Position (Deficit)

Six-month periods ended April 30, 2013 and 2012 (Unaudited)

	2013	2012 (Restated)
Operating revenues:		
Revenues from ground leases (notes 5, 6, and 7):		
Base rent	\$ 31,223,849	29,766,254
Supplemental rent	999,850	801,879
Payments in lieu of real estate taxes (note 12)	78,167,873	79,859,277
Civic facilities payments and other	7,381,883	6,475,754
Total operating revenues	117,773,455	116,903,164
Operating expenses:		
Wages and related benefits	6,285,324	7,041,659
OPEB - The Authority (note 17)	219,519	610,412
OPEB - The Conservancy (note 18)	950,873	612,495
Other operating and administrative expenses	8,221,517	7,255,488
Depreciation of project assets	4,161,870	4,074,630
Other depreciation and amortization	902,730	847,669
Total operating expenses	20,741,833	20,442,353
Operating income	97,031,622	96,460,811
Nonoperating revenues (expenses):		
Investment income on funds relating to:		
2003 Revenue Bonds (note 10)	1,082,954	1,244,688
2009 Revenue Bonds (note 11)	61,580	218,233
Corporate-designated, escrowed, and OPEB funds	1,035,011	1,077,638
Realized and unrealized gains and losses	(745,403)	496,982
Other revenue	225,980	—
Gain (loss) on project assets	150	—
Interest expense relating to:		
2003 Swap agreements – net interest expense	(6,216,214)	(6,238,411)
2003 Revenue Bonds (note 10)	(9,436,553)	(10,170,852)
2009 Revenue Bonds (note 11)	(1,903,521)	(1,849,734)
Loss from extinguishment	(697,757)	(697,931)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 12)	(47,072,824)	(41,859,513)
Provision for transfer to the City of New York per 2010 Agreement (note 12)	(19,808,177)	(24,642,329)
Pier A Construction Pass Through NYC	(2,484,545)	—
Total nonoperating expenses	(85,959,319)	(82,421,229)
Change in net position (deficit)	11,072,303	14,039,582
Net (deficit), beginning of period	(628,019,616)	(645,154,626)
Effect of adoption of GASB 65 (note 3(j))	(21,181,095)	(22,222,790)
Net (deficit), beginning of period (Restated)	(649,200,711)	(667,377,416)
Net (deficit), end of period	\$ (638,128,408)	(653,337,834)

See accompanying notes to financial statements and independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Statements of Cash Flows

Six-month periods ended April 30, 2013 and 2012 (Unaudited)

	2013	2012 (Restated)
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 114,313,355	108,870,310
Miscellaneous receipts	723,473	814,600
Total cash receipts from operating activities	115,036,828	109,684,910
Cash payments for:		
Salaries and benefits	(6,818,975)	(7,364,324)
Services and supplies	(4,086,364)	(5,489,814)
Total cash payments for operating activities	(10,905,339)	(12,854,138)
Net cash provided by operating activities	104,131,489	96,830,772
Cash flows from noncapital financing activities:		
Payments to Battery Park City Library	—	(45,807)
Receipts from the City of New York - Pier A	15,599,693	—
Payments to Pier A Contractors on behalf of the City of New York	(5,952,827)	(5,020,415)
Payments from lessees – site security deposits	250,340	447,307
Payments to lessees - site security deposits	—	(82,965)
Payments to The Port Authority New York & New Jersey	(3,820,328)	(20,638,145)
Net cash provided by (used in) noncapital financing activities	6,076,878	(25,340,025)
Cash flows from capital and related financing activities:		
Development costs – site improvements and construction	(1,422,634)	(9,401,096)
Capital asset expenditures	(56,909)	(845,052)
Receipts from the sale of capital assets	150	—
Payments for Super Storm Sandy	(3,690,852)	—
Proceeds from Super Storm Sandy	4,256,000	—
JPMC Muni Bond derivative settlement	225,980	—
Auction fees for variable debt	(187,614)	(189,314)
Swap payment made on the 2003 Swap agreement	(6,563,547)	(6,657,614)
Swap interest payments received on the 2003 Swap agreement	257,352	327,138
Principal paydown on 2003 Revenue Bonds	(19,280,000)	(19,825,000)
Interest paid on 2003 Senior Revenue Bonds	(8,957,991)	(9,278,219)
Interest paid on 2003 Junior Revenue Bonds	(1,276,095)	(1,616,237)
Principal paydown on 2009 Senior Revenue Bonds	(115,000)	(255,000)
Interest paid on 2009 Senior Revenue Bonds	(2,517,603)	(2,520,153)
2009 Senior Revenue Bonds - Build America Bonds refund from U.S. Treasury	576,508	631,444
Net cash used in capital and related financing activities	(38,752,255)	(49,629,103)
Cash flows from investing activities:		
Interest and realized gains received on investment securities	2,292,248	2,767,079
Maturities and redemptions of investment securities	310,855,003	170,617,247
Purchases of investment securities	(352,131,507)	(242,751,565)
Net cash used in investing activities	(38,984,256)	(69,367,239)
Increase (decrease) in cash and cash equivalents	32,471,856	(47,505,595)
Cash and cash equivalents, beginning of period	121,140,192	208,793,931
Cash and cash equivalents, end of period	\$ 153,612,048	161,288,336

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Statements of Cash Flows

Six-month periods ended April 30, 2013 and 2012 (Unaudited)

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 97,031,622	96,460,811
Adjustments to reconcile operating income to net cash provided by operating activities:		
Bad debt expense	108,451	89,723
Depreciation and amortization	5,064,600	5,723,373
Other	100,162	(162,925)
Changes in operating assets and liabilities:		
Decrease (increase) in rents and other receivables	2,031,001	(1,725,858)
Decrease (increase) in other assets	71,420	74,604
Increase in accounts payable and other liabilities	3,175,827	2,965,320
Decrease in unearned revenue	(4,350,884)	(7,580,977)
Increase in OPEB	899,290	986,701
Net cash provided by operating activities	<u>\$ 104,131,489</u>	<u>96,830,772</u>
Reconciliation to cash and cash equivalents, end of period:		
Bank deposits	\$ 490,064	398,007
Cash and cash equivalents (note 3(e))	926,609	1,958,147
Investments with less than 91-day maturities (note 3(e))	<u>152,195,375</u>	<u>158,932,182</u>
Cash and cash equivalents, end of period	<u>\$ 153,612,048</u>	<u>161,288,336</u>

See accompanying notes to financial statements and independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2013 and 2012 (Unaudited)

(1) General

Hugh L. Carey Battery Park City Authority (the “Authority”) is a public benefit corporation created in 1968 under the laws of the State of New York (the “State”) pursuant to the Battery Park City Authority Act (the “Act”) and is a legally separate entity from the State. The Authority has been doing business as the Hugh L. Carey Battery Park City Authority since 1999. For financial reporting purposes, the Authority is a component unit of the State and is included in the State’s comprehensive annual financial report.

The Authority’s reporting entity comprises itself and the Battery Park City Parks Conservancy (the “Conservancy”). The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation and is a blended component unit of the Authority under the guidance included in Governmental Accounting Standards Board (“GASB”) Statement Nos. 14 and 39, and the Conservancy’s assets, liabilities, and results of operations are combined with the operations of the Authority for financial reporting purposes.

The Authority and its blended component unit, the Conservancy, are referred to collectively as the “Organization” in the financial statements. All significant transactions between the Authority and the Conservancy have been eliminated.

The Act sets forth the purposes of the Authority, including: the improvement of the Battery Park City project (the “Project”) area; the creation in such area, in cooperation with the City of New York (the “City”) and the private sector, of a mixed commercial and residential community; and the making of loans secured by first mortgages to any housing company organized to provide housing within the project area pursuant to the New York State Private Housing Finance Law. The Act also authorizes the Authority to pledge and assign revenues to secure financing for low and moderate-income housing developments outside the project area, as well as issue bonds for the purposes of furthering the development of a commodities and futures exchange facility in Battery Park City, repaying certain State appropriations, and making payments to the City and State (see note 9).

The Act provides that the Authority and its corporate existence shall continue until terminated by law, provided, however, that no such law shall take effect so long as the Authority shall have bonds, notes, and other obligations outstanding, unless adequate provision has been made for the payment of those obligations.

(2) Status of Project

The Project consists of approximately 92 acres of landfill created, owned, and operated by the Authority (see note 4). The Project’s current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 10.2 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, three public schools, a public library, four not-for-profit condos owned by the Authority, and approximately 8,600 residential units (see notes 5, 6, and 7).

The Authority also owns and controls significant air rights throughout the Project. Ground rents, payments in lieu of real estate taxes (“PILOT”), and other lease payments are received under the ground leases, all expiring in 2069. All sites on the Project have been designated for development.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2013 and 2012 (Unaudited)

(3) Summary of Significant Accounting Policies

(a) *Financial Reporting*

The Organization follows accounting principles generally accepted in the United States of America as promulgated by GASB.

The Organization's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, provides proprietary activities with the option of implementing the provisions of Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Organization has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

(b) *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Estimates include reserves for doubtful accounts, depreciation, and other postemployment benefits. Actual results could differ from those estimates.

(c) *Project Assets*

Costs incurred by the Authority in developing the Project as of April 30, 2013 and 2012 are capitalized as project assets and classified as follows:

	Balance at October 31, 2012	Additions	Retirements	Balance at April 30, 2013
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	374,131,317	1,120,155	—	375,251,472
Residential building and condominiums	132,109,599	467,468	—	132,577,067
Total project assets	<u>589,256,569</u>	<u>1,587,623</u>	<u>—</u>	<u>590,844,192</u>
Less accumulated depreciation:				
Site improvements	82,406,877	2,579,651	—	84,986,528
Residential building and condominiums	18,528,763	1,582,219	—	20,110,982
Total accumulated depreciation	<u>100,935,640</u>	<u>4,161,870</u>	<u>—</u>	<u>105,097,510</u>
Net project assets	<u>\$ 488,320,929</u>	<u>(2,574,247)</u>	<u>—</u>	<u>485,746,682</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Notes to Financial Statements
April 30, 2013 and 2012 (Unaudited)

	Balance at October 31, 2011	Additions	Retirements	Balance at April 30, 2012
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	371,669,435	1,278,879	—	372,948,314
Residential building and condominiums	123,041,419	6,929,241	—	129,970,660
Total project assets	<u>577,726,507</u>	<u>8,208,120</u>	<u>—</u>	<u>585,934,627</u>
Less accumulated depreciation:				
Site improvements	77,264,531	2,563,559	—	79,828,090
Residential building and condominiums	15,457,090	1,511,071	—	16,968,161
Total accumulated depreciation	<u>92,721,621</u>	<u>4,074,630</u>	<u>—</u>	<u>96,796,251</u>
Net project assets	<u>\$ 485,004,886</u>	<u>4,133,490</u>	<u>—</u>	<u>489,138,376</u>

The Authority records project assets at historical cost. The costs of normal maintenance of the Project that do not add to the value of the Project or extend its useful life are not capitalized. Upon completion, site improvement costs, which consist principally of infrastructure, streets, and civic and public facilities, are being depreciated by the straight-line method over the remaining lease years (to 2069). Interest costs incurred during construction related to cost of infrastructure and facilities for phases being developed were capitalized until such phases were substantially completed and ready for construction of buildings. The residential building is being depreciated over a useful life of 50 years and the condominium units through the first appraisal date of each lease.

(d) Revenue from Ground Leases

Revenue from ground leases is recognized as income as such amounts become receivable under the provisions of each lease, except that PILOT and upfront lease payments received in advance of the period to which they apply are deferred and recognized as income during future periods. Given the nature of the Organization's operations, revenue from ground leases and related fees and agreements is considered operating revenue. All other revenues are considered nonoperating. In accordance with the lease terms, the Authority received upfront lease payments in fiscal periods prior to 2013 of \$40.7 million, \$60 million, \$42.5 million, \$22.5 million, \$33.9 million, and \$4.75 million from residential buildings on Site 22, Site 16/17, Site 3, Site 23, Site 24, and Site 2A, respectively.

In August 2005, the Site 26 commercial ground lease was signed providing for a one-time lump sum base rent payment of approximately \$161 million to be deposited with an escrow agent, which was paid in June 2007. In the fiscal year ended October 31, 2010, the Authority received \$169.3 million from the escrow account as the project was completed and various conditions were performed by the City. Base rent revenue relating to the one-time payment is being recognized on a pro rata basis over the lease term, which ends in 2069.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Notes to Financial Statements
April 30, 2013 and 2012 (Unaudited)

(e) **Investments and Deposits**

The Organization carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Organization's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority's investments in securities are held by the Authority's financial institutions in the Authority's name. The Authority's investments in U.S. Treasury Securities are backed by the full faith and credit of the U.S. government; investments in commercial paper maintain a credit rating no lower than 'A-1' grade; investments in federal agency and mortgage backed securities have the highest credit rating of 'AAA' and are supported by the U.S. government or its agencies; investments in municipal bonds are supported by Fannie Mae and rated 'AAA.' All other deposits or investments are fully collateralized or backed by the Federal Deposit Insurance Corporation ("FDIC") or letters of credit. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority's name.

Total investments and deposits held by the Organization at April 30, 2013 and 2012 included within the statements of net position (investments, corporate-designated, escrowed and postemployment benefit funds, bond resolution funds (see note 8), and residential lease required funds) were as follows:

	April 30, 2013			April 30, 2012		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities:						
Treasury Bills	\$ 279,747,905	279,813,167	0.18	\$ 254,591,349	254,618,083	0.14
Treasury Bonds	85,534,317	89,236,718	3.21	57,507,344	61,418,446	4.31
Treasury Strips	337,562	856,853	4.86	337,562	830,337	5.66
Total						
U.S. Treasury securities	365,619,784	369,906,738		312,436,255	316,866,866	
Commercial paper	64,502,741	64,520,814	0.03	53,753,567	53,759,013	0.06
Federal agency securities	30,121,430	31,641,129	2.54	66,194,280	68,409,755	1.97
Federal agency mortgage backed securities	15,625,669	16,355,487	3.02	14,990,192	16,149,288	2.87
Municipal bonds	29,923,757	31,416,852	4.07	28,230,012	29,995,072	3.70
Total investments	505,793,381	513,841,020	1.17	475,604,306	485,179,994	1.24
Cash and cash equivalents	926,609	926,609		1,958,147	1,958,147	
Total investments and deposits	\$ 506,719,990	514,767,629		477,562,453	487,138,141	

(a) Portfolio weighted average effective duration

As of April 30, 2013, restricted assets included cash and cash equivalents of \$926,609 and investments with less than 91-day maturities of \$152,195,375.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2013 and 2012 (Unaudited)

As of April 30, 2012, restricted assets included cash and cash equivalents of \$1,958,147 and investments with less than 91-day maturities of \$158,932,182.

The Organization's investment objectives for the portfolio are to generate a rate of return in excess of selected benchmarks, provide diversification to the total portfolio, and provide an appropriate level of liquidity for the Authority's operations.

The Organization's permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, Ginnie Mae securities); (ii) notes, bonds, debentures, and mortgages of U.S. government-sponsored agencies provided that its obligations receive the highest credit rating; (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days provided that such obligations receive the highest rating of two independent rating services (commercial paper) which as of April 30, 2013 were A1/P1; (iv) municipal bonds issued by New York authorities and currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

Interest rate risk is the probability of loss on investments from future changes in interest rates, which can adversely affect their fair value. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration takes into account the change in cash flow expectations of securities with embedded options such as callable bonds and mortgage-backed securities. The interest rate risk of the Organization's portfolio is measured according to effective duration.

Investments of amounts in funds and accounts established under the various 2003 and 2009 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. government and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Corporate-designated, escrowed, and OPEB funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund (see note 10), project contingency reserves, restoration reserves, insurance reserves, and arbitrage reserve and funds designated for the payment of medical benefits to the Authority and Conservancy retirees.

Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds are largely comprised of security and escrow deposits held by the Authority for the residential buildings.

The Conservancy maintains its cash in bank deposits which are guaranteed by the FDIC up to \$250,000. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$250,000.

(f) Net Position

The Organization's net position is classified in the following categories: invested in capital assets, net of related debt, consisting of project assets, net of accumulated depreciation and deferred costs reduced by the outstanding balance of debt attributable to the acquisition, construction, or improvement of those assets; restricted assets, consisting of assets restricted for specific purposes by

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Notes to Financial Statements

April 30, 2013 and 2012 (Unaudited)

law or parties external to the Organization; and unrestricted assets, consisting of assets that are not classified as invested in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

(g) *Deferred Costs*

Bond insurance costs are amortized using the straight-line method over the remaining period to maturity of the bonds (see note 3(j)).

(h) *Statements of Cash Flows*

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with maturities of less than 91 days when purchased to be cash equivalents.

(i) *Defined Postemployment Benefits*

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("OPEB"). This Statement establishes standards for the measurement, recognition, and financial statement presentation of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. In accordance with GASB Statement No. 45, effective for the fiscal year beginning November 1, 2006, the Authority (a) implemented a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employee's years of service, and (b) provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan (see note 17).

In accordance with GASB Statement No. 45, effective for the fiscal year beginning November 1, 2009, the Conservancy (a) implemented a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employee's years of service, and (b) provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan (see note 18).

(j) *Accounting and Financial Reporting for Derivative Instruments*

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). GASB No. 53 addresses the recognition, measurement and disclosure of information regarding derivative instruments for state and local governments. In accordance with GASB No. 53, the Authority evaluated the effectiveness of six interest-rate exchange agreements ("Swaps"), determined the swaps to be effective hedges and recorded the negative fair value of approximately \$98.4 million and \$98.3 million as of April 30, 2013 and 2012, respectively, as both an asset labeled as accumulated decrease in the fair value of the interest rate swap agreements (deferred outflow of resources per GASB No. 53) and a liability labeled as fair value of interest rate swaps, for comparative purposes.

In June 2011, GASB issued GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 addresses the financial reporting for deferred outflows of resources and deferred inflows of resources. In accordance with GASB No. 63,

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for the period ended April 30, 2012, the Authority changed the format of the financial statements to comply with the new requirements which change the Balance Sheets to Statements of Net Position, and the Statements of Revenues, Expenses, and Changes in Net Assets (Deficit) to the Statement of Revenues, Expenses, and Changes in Net Position (Deficit). In addition, the Authority is reporting the accumulated decrease in the fair value of interest rate swaps in the deferred outflow of resources section on the statement of net position.

In March 2012, GASB issued GASB No. 65 *Items Previously Reported as Assets and Liabilities*. GASB No. 65 clarifies the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority reclassified certain items that were previously classified as assets and liabilities to deferred outflows of resources. In addition, GASB No. 65 requires that all lease and debt issuance costs, except any portion related to prepaid insurance costs, be recognized as an expense in the period incurred. In accordance with GASB No. 65, beginning with the six-month period ended April 30, 2013, the Authority retroactively applied this statement to prior periods and adjusted the beginning balance of net position (deficit) for the earliest period presented for all lease and debt issuance costs except prepaid insurance costs, which are being reported as an asset and recognized as an expense over the duration of the related debt. The format of the financial statements for the six-month period ended April 30, 2012 has been changed accordingly for comparative purposes.

(4) Rights of City to Reacquire Project Site

The fee interest in the Project site formerly owned by the City was conveyed to the Authority in the early 1980s for a nominal consideration. The City has the right to reacquire the Project site at any time, subject to the then existing leases, for a nominal consideration after: (a) all notes, bonds, and other indebtedness incurred by the Authority, or for which the Authority's revenues have been pledged, have been repaid or defeased; and (b) satisfaction or provision for payment of its contractual obligations and other contingent liabilities. The City may provide for repayment or defeasance of indebtedness incurred by the Authority under its various bond resolutions. As of April 30, 2013, the City had not expressed its intent regarding its right to reacquire the Project site.

(5) Commercial Development

In 1981, the Authority and Olympia & York Battery Park Company ("O&Y"), an affiliate of Olympia & York Development Limited, entered into a lease pursuant to which O&Y constructed four buildings, consisting of approximately 8,000,000 square feet of office space and a maximum of 280,000 square feet of commercial and retail space. These buildings are collectively known as the World Financial Center ("WFC"). In 1983, the lease was replaced with four separate severance leases, one of which was assigned by O&Y to the American Express Company and certain of its affiliates ("American Express"). O&Y has been reorganized as a result of bankruptcy proceedings and has changed its name to Brookfield Financial Properties (BFP). In September 2002, BFP acquired an interest in approximately 50% of Three World Financial Center from American Express.

As of April 30, 2013, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$950 million over the lease terms in the following annual amounts: (i) base rent of \$17 million per annum from 2013 through 2069 and (ii) additional base rent of \$5,561,220 payable by the BFP-affiliated lessees (2000 to 2014) (see note 7). In addition, the leases provide for rent relating to

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retail and other space and, with respect to each building, percentage rent based on cash flow, as defined, which commenced in 1997 and continues to 2016. Annual PILOT is also required to be paid to the Authority based on the assessed value of each building and the tax rate then applicable to real property located in the borough of Manhattan, unless alternative PILOT arrangements are set forth in the ground lease. The City determines the assessed value of each building. Each lessee, or certain authorized tenants of the lessee, has the right to appeal the assessment to the City Tax Commission and bring tax certiorari proceedings in State court to seek reductions in the amounts of such assessments. A number of administrative and judicial appeals on some of the parcels are currently pending for the current and prior tax years. While any such proceedings are pending, the lessee is required to pay PILOT based upon the assessments established by the City. If a lessee is successful in any such proceedings, subsequent PILOT payments to the Authority will be reduced to the extent necessary to offset the prior overpayment of PILOT as a result of the revised assessment.

In 1995, the Authority signed a lease with the New York Mercantile Exchange and its wholly owned subsidiary, Commodity Exchange Inc. (collectively, "NYMEX"), and other agreements along with the New York City Economic Development Corporation, the City, and the New York State Urban Development Corporation (doing business as the Empire State Development Corporation) for the development of a 500,000 square foot trading facility and office building complex to be located on Site 15. The Authority has constructed and paid for certain utility connections to the Project. The lease provides that, commencing on the occupancy date and continuing for a period of 20 years, the rent per annum shall be \$1 for the trading portion of the building and \$1 million for the office portion for the first 7 years of occupancy, \$1,500,000 for years 8 through 13, and \$2 million for the remainder of the 20-year period. The building was completed and occupied in July 1997. The NYMEX lease provides for an abatement program for PILOT payments for portions of the exchange project.

In 1998, a lease was signed for the development of a 463-room luxury hotel and cinema complex (approximately 600,000 square feet) north of the WFC (the north neighborhood). In addition, in January 2001, a lease was signed for the development of a luxury hotel (approximately 278,000 square feet) in the south neighborhood.

In August 2005, a lease was signed by Goldman Sachs Headquarters LLC ("Goldman") for the development of approximately 2.2 million square feet of trading and office headquarter space on Site 26 in the north neighborhood. The Site 26 ground lease requires that a \$161 million lump-sum rent payment be deposited with an escrow agent, which was paid in June 2007. During the fiscal year ended October 31, 2010 the Authority received \$169.3 million, which included interest accrued on the escrowed amount, from the escrow agent as the building was completed and the City fulfilled all of its obligations in relation to the site. PILOT payments under the lease are made subject to certain caps and exemptions to Goldman. In addition, in December 2005, Goldman made a \$3.5 million lease payment to the Authority which is held in escrow along with accrued interest earnings for the benefit of the local community to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. Approximately \$4 million was disbursed to the New York Public Library by the Authority through April 30, 2013.

(6) Residential and Other Development

In 1980, the Authority entered into a lease with a limited-profit housing company (the "Housing Company"), which constructed an apartment complex consisting of 1,712 rental apartment units (the "Gateway Project"). In addition to the Gateway Project, the Authority entered into leases in the south

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neighborhood, pursuant to which developers constructed 18 buildings consisting of approximately 3,800 condominium and rental units, including 113 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. The final site on the Project in the south neighborhood was designated as a public school. In the north neighborhood, 11 buildings consisting of 3,106 units have been constructed. All the leases expire in 2069.

Future base rent payments are fixed through the first lease appraisal date, which varies among the projects, but is generally the first day of the calendar month next succeeding the twentieth or twenty-fifth anniversary of the date on which a temporary certificate of occupancy is issued. For lease years subsequent to the first appraisal date, the leases provide for base rent payments, subject to limitations, based upon a percentage of the fair market value of the land, but generally not less than an amount in excess of the highest base rent payable for any lease year ending prior to the first appraisal date. Two leases were modified to provide for a 25% increase in ground rent spread over 25 years. This modification reduced the ground rent from the original terms at 6% of fair market value. With respect to lease years subsequent to any other reappraisal dates, base rent may not be less than an amount in excess of base rent payable for the lease year immediately prior thereto. Reappraisal dates occur every 15 years, commencing on the fifteenth anniversary of the first appraisal date. Twelve leases for buildings in the south neighborhood with condominium units were modified to provide for increased fixed ground rents spread over the first two reappraisal periods. This modification reduced the ground rent increases from the original terms at 6% of fair market value.

Annual PILOT is also required to be paid to the Authority during the term of these leases. PILOT is a lease payment by the tenants of each lease to the Authority in lieu of paying real property taxes to the City. PILOT is based on the assessed value of the premises as established by the City and the tax rate then applicable to similar classes of real property located in the borough of Manhattan. Many leases provide for an abatement equivalent to the real estate tax abatements provided for in the State's Real Property Tax Law, and are either 10 or 20 years in duration. Abatements for two developments in the south neighborhood will end in 2020 and abatements for the north neighborhood will end in 2020 or thereafter.

Certain residential leases also provide for supplemental rental payments, generally through the first appraisal date, which are to be paid if, and only to the extent, the PILOT payments are less than the minimum specified in each lease (see note 7).

The residential leases also provide for payments to the Authority for the operation and maintenance of civic facilities installed by the Authority and, in some cases, of percentage rent based on rentals from commercial facilities.

Certain leases also provide, among other matters, for the lessees to make payments to the Authority in the event of a conversion to a cooperative or condominium form of ownership.

Under the terms of the Gateway project lease, as amended, the tenant has agreed to pay: (i) a net annual land rent of \$305,440 in 1998 and thereafter, subject to renegotiation or reappraisal as provided in the lease upon the earlier of June 1, 2023 or repayment of the new FHA insured loan; (ii) an annual amount in lieu of real estate taxes which as of February 16, 2016, increases by 20% per year from the pre-refinancing payments in lieu of real estate taxes to an equivalency payment equal to full PILOT starting on February 16, 2020; and (iii) amounts for the operation and maintenance of the civic facilities. The lease, as amended, expires in 2040 and may be extended at the option of the tenant through 2069. In July 2009, the

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Gateway lease was amended to set the amount of land rent, beginning in June 2023, at 8.125% of the aggregate amount of rent collected by the lessee less certain allowances, pass-throughs, and other municipal charges in excess of land rent.

On November 15, 2007, ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which is owned by the Authority as condominium units. Construction of the buildings and the Community Center began in the spring of 2008 and was completed as of April 30, 2013.

(7) Future Minimum Lease Revenue

The future minimum base rent and other minimum lease payments (including supplemental rent, as applicable, through the first appraisal date (see note 6)) to be received under the ground leases during each of the Authority's five fiscal years ending from October 31, 2014 through 2018 and through the end of the lease term (thereafter), are as follows (in 000s):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>	<u>Total</u>
Commercial development:							
Base rent	\$ 24,218	19,604	19,622	20,282	21,660	1,139,879	1,245,265
Residential developments:							
Gateway project base rent	305	305	305	305	305	6,618	8,143 (a)
S. Res. Neighborhood:							
Base rent	18,048	18,236	18,441	18,752	19,081	1,770,704	1,863,262
Subtotal S. Res.	18,048	18,236	18,441	18,752	19,081	1,770,704	1,863,262
N. Res. Neighborhood:							
Base rent	7,185	7,423	7,686	7,881	8,078	779,463	817,716
Other minimum payments	12,402	13,705	15,254	16,674	17,675	543,044	618,754
Subtotal N. Res.	19,587	21,128	22,940	24,555	25,753	1,322,507	1,436,470
Total	\$ 62,158	59,273	61,308	63,894	66,799	4,239,708	4,553,140

(a) Does not include extension period (see note 6).

Amounts in the above tabulation do not include PILOT (other than minimum supplemental rent payments under the second phase residential leases) and other payments to be received under the ground leases. The minimum payments will be recorded as revenues (supplemental rents) only to the extent that minimum amounts exceed PILOT revenues due. All buildings are fully occupied and minimum lease revenues are included. Revenues to be paid on a percentage basis and other like contingent payments are also excluded from the above tabulation.

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(8) 2003 and 2009 Revenue Bond Resolution Funds

The current and noncurrent balance in the funds and accounts established in accordance with the Authority's 2003 Revenue Bond resolutions and held by the trustee is as follows at April 30, 2013 and 2012:

	2003 Revenue Bonds			Total 2003 Bonds
	General Bond Resolution	Senior Bonds	Junior Bonds	
April 30, 2013				
Reserve Fund	\$ 73,136,376	—	—	73,136,376
Project Operating Fund	7,650,342	—	—	7,650,342
Debt Service Funds	—	40,744,710	65,615,690	106,360,400
Residual Fund	103,353,532	—	—	103,353,532
Pledged Revenue Fund	46,983,759	—	—	46,983,759
	<u>\$ 231,124,009</u>	<u>40,744,710</u>	<u>65,615,690</u>	<u>337,484,409</u>

	2003 Revenue Bonds			Total 2003 Bonds
	General Bond Resolution	Senior Bonds	Junior Bonds	
April 30, 2012				
Reserve Fund	\$ 74,012,949	—	—	74,012,949
Project Operating Fund	8,153,167	—	—	8,153,167
Debt Service Funds	—	40,340,901	63,686,311	104,027,212
Residual Fund	124,555,290	—	—	124,555,290
Pledged Revenue Fund	40,010,420	—	—	40,010,420
	<u>\$ 246,731,826</u>	<u>40,340,901</u>	<u>63,686,311</u>	<u>350,759,038</u>

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In December 2009, as a result of the 2009 Senior Revenue Bonds issuance, funds and accounts were added to implement certain provisions of the 2003 Revenue Bonds resolutions and were held by the trustee as follows at April 30, 2013 and 2012:

	2009 Revenue Bonds		
	2009A	2009B	Total
April 30, 2013	Senior Revenue	Senior Revenue	2009
	Bonds	Bonds	Bonds
Project Costs Fund	\$ 26,197,298	2,385,353	28,582,651
	\$ 26,197,298	2,385,353	28,582,651

	2009 Revenue Bonds		
	2009A	2009B	Total
April 30, 2012	Senior Revenue	Senior Revenue	2009
	Bonds	Bonds	Bonds
Project Costs Fund	\$ 29,583,395	5,731,931	35,315,326
	\$ 29,583,395	5,731,931	35,315,326

Investments of amounts in funds and accounts established under the various 2003 and 2009 Revenue Bond Resolutions are presently restricted to obligations of the State, U.S. government, and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law.

Amounts in the Project Costs Fund may be used to pay for costs of certain park, street, and other infrastructure improvements, and other capital expenditures.

Amounts in the Debt Service Funds and dedicated funds established under the 2003 Revenue Bond Resolutions are used to pay debt service on the respective bonds. To the extent not utilized to fund any future debt service deficiencies, the funds will be available to retire bonds issued there-under in the last year of bond maturity.

A Reserve Fund is held for the payments of debt service, which holds an approximate amount of the maximum annual debt service of the 2003 and 2009 Revenue Bonds. In December 2009, upon the issuance of the 2009 Revenue Bonds, an amount of \$1.5 million was added to the 2003 Reserve fund.

Amounts in the Project Operating Fund established under the 2003 General Bond Resolution are not pledged to pay debt service and may be used by the Authority for and on certain additional indebtedness, which may be issued by the Authority for the funding of maintenance, repair, and restoration of the public open areas and civic facilities, and administrative and other expenditures, as defined.

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Amounts held in the Pledged Revenue Fund (“PRF”) are pledged and assigned for the payment of the debt service on the 2003 and 2009 Revenue Bonds and on certain additional indebtedness, which may be issued by the Authority and secured by the Authority’s revenue.

Each November, after meeting funding requirements, the entire balance of funds remaining on deposit in the PRF is transferred to the Residual Fund. These balances become general assets for lawful corporate purposes. From time to time, revenues not pledged to the bondholders are deposited to the PRF.

(9) Authority Bonds Authorized and Assignment of Revenue for Housing New York Corporation Bonds

The Act, as amended, authorizes the Authority to issue bonds and notes in amounts not to exceed: (a) \$300 million outstanding at any one time for the development of the Project; (b) another \$150 million for the purpose of financing capital costs in connection with development of the Project area, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (c) \$400 million outstanding at any one time for the making of loans to housing companies organized to provide housing within the Project area pursuant to the New York State Private Housing Finance Law; (d) \$100 million for the purpose of repaying State appropriations including accrued interest thereon and funding the infrastructure of the Project, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (e) \$150 million for the purpose of making a payment to the City, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; and (f) \$250 million for the purpose of making a payment to the State of New York. Such authorized amounts exclude bonds and notes issued to refund outstanding bonds and notes.

The Act, as amended, also authorizes the Authority to pledge and assign excess revenues, as defined, to the Housing New York Corporation (“HNYC”), a State public benefit corporation and subsidiary of the New York City Housing Development Corporation, in such amounts as are necessary to secure the issuance of bonds or notes by HNYC, in amounts not to exceed \$400 million, to finance low- and moderate-income housing developments outside the Authority’s Project area, plus a principal amount of bonds or notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Pursuant to the Housing New York Act, only those bond or note proceeds of HNYC that are available on or before June 30, 1995 are permitted to be used to finance the housing program. Consequently, unless the Housing New York Act is amended, the Authority cannot pledge or assign any additional revenues in the future for the HNYC housing program.

The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed \$110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of April 30, 2013, no bonds were issued for this purpose.

The Act, as amended, authorized the Authority to enter into interest rate exchange agreements through December 31, 2003 in connection with the issuance of Authority debt or in connection with Authority debt already outstanding, to provide for an exchange of payments based upon fixed and/or variable interest rates. In October 2003, the Authority entered into \$400 million of interest rate exchange agreements (see note 10).

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Issuance of additional bonds by the Authority is subject to meeting certain conditions, including projected debt service coverage tests, and approval by the City and the State Public Authorities Control Board.

(10) 2003 Revenue Bonds

On October 16, 2003, the Authority issued \$406,350,000 (\$433,345,972 inclusive of net premium) of fixed-rate Senior Revenue Bonds, Series A (the "2003 Series A Bonds") and \$635,000,000 variable-rate Junior Revenue Bonds, comprising \$235,000,000 of Series B (the "2003 Series B Bonds") and \$400,000,000 of Series C (the "2003 Series C Bonds"), for a total of \$1,068,345,972. The bonds were issued for the following purposes:

- A total of \$564,891,733 of bonds (including \$343,017,495 of the 2003 Series A Bonds, \$50,871,502 of the 2003 Series B Bonds, and \$171,002,776 of the 2003 Series C Bonds) were issued to currently refund all the outstanding 1993 Revenue Refunding Bonds, including \$324,045,000 of the 1993 Series A Senior Bonds, \$115,420,000 of the 1993 Series A Junior Bonds, and \$53,075,000 of the Junior Revenue Bonds, Series 2000.
- \$95,755,874 of the 2003 Series C Bonds were issued to advance refund \$74,385,000 of outstanding Junior Revenue Bonds, Series 1996 A.
- \$115,160,363 of the 2003 Series B Bonds was issued to finance certain infrastructure and other capital improvements.

In conjunction with the refunding of all of the outstanding revenue bonds, the Authority issued \$292,537,963 of bonds (including \$90,328,477 of the 2003 Series A Bonds, \$68,968,136 of the 2003 Series B Bonds, and \$133,241,350 of the 2003 Series C Bonds) to current refund \$250,390,000 of outstanding 1993 HNYC Senior Bonds (see note 9).

Funds aggregating \$860,037,332, representing the net proceeds of the bond issues after payment of underwriting fees and other issuance cost and deposits to debt service reserve and other funds and accounts held under the various resolutions for the refunded bonds, were used to purchase U.S. government securities. In addition, approximately \$90.4 million of the bond proceeds was made available to the Authority to facilitate development and maintenance of the Project. All of the project development proceeds were utilized in prior years.

The refunding resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by \$39 million. Of that amount, approximately \$8 million related to issuance costs other than insurance. In accordance with GASB 65, the remaining \$31 million is to be amortized over the remaining life of the debt. The difference between the reacquisition price and the net carrying amount of the refunded debt is reflected on the Authority's statement of net position as an unamortized loss on extinguishment of debt and is being deferred over the life of the old debt with a pro rata charge to interest expense for the six-month periods ended April 30, 2013 and 2012.

The payment of principal commenced in November 2008 on the 2003 Series A and 2003 Series C Bonds, while payment on the 2003 Series B Bonds commences in 2033.

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At April 30, 2013, the 2003 Series A Bonds consist of the following serial bonds:

	<u>Coupon rates</u>	<u>Principal amounts</u>	<u>Interest</u>
Fiscal year ended:			
2013 (1/2 year)	3.40% – 5.50%	—	8,573,979
2014	3.50% – 5.50%	16,140,000	16,735,258
2015	3.625% – 5.25%	17,165,000	15,880,183
2016 – 2020	3.75% – 5.25%	103,310,000	64,458,022
2021 – 2025	4.25% – 5.25%	134,935,000	33,753,233
2026 – 2027	4.625% – 5.00%	64,025,000	3,231,869
Totals		\$ <u>335,575,000</u>	<u>142,632,544</u>

The Authority issued certain of the 2003 Series A Bonds at a discount and others at a premium, resulting in an overall net premium of approximately \$27 million, which is being amortized on a straight-line basis, over the lives of the 2003 Series A Bonds. At April 30, 2013 and 2012, the unamortized net bond premium was approximately \$15.8 million and \$17 million, respectively. The 2003 Series A Bonds maturing after November 1, 2013 are subject to redemption, in whole or in part, at any time on or after November 1, 2013 at the option of the Authority, at a redemption price of par plus interest to the redemption date.

As of April 30, 2013, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

	<u>Junior B</u>		<u>Junior C</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Fiscal Year ended:						
2013 (1/2 year)	—	471,763	—	762,724	—	1,234,487
2014	—	943,525	5,450,000	1,514,425	5,450,000	2,457,950
2015	—	943,525	5,450,000	1,492,377	5,450,000	2,435,902
2016	—	943,525	5,450,000	1,470,330	5,450,000	2,413,855
2017	—	943,525	5,450,000	1,448,282	5,450,000	2,391,807
2018 – 2022	—	4,717,625	28,075,000	6,907,509	28,075,000	11,625,134
2023 – 2027	—	4,717,625	33,150,000	6,292,960	33,150,000	11,010,585
2028 – 2032	—	4,717,625	225,300,000	3,734,123	225,300,000	8,451,748
2033 – 2037	110,900,000	4,056,555	66,500,000	276,640	177,400,000	4,333,195
2038 – 2040	124,100,000	760,441	—	—	124,100,000	760,441
Total	\$ <u>235,000,000</u>	<u>23,215,734</u>	<u>374,825,000</u>	<u>23,899,370</u>	<u>609,825,000</u>	<u>47,115,104</u>

The 2003 variable-rate Junior Revenue Bonds were issued as Auction Rate Securities (“ARS”) and the principal and interest are insured by municipal bond insurance policies. Interest rates on these bonds are reset periodically through an auction process in the secondary market. The 2003 Series B Bonds reset on a 7-day auction cycle and the 2003 Series C Bonds reset on a 35-day auction cycle.

Interest in the above table is based on actual auction rates in effect closest to April 30, 2013, which were .396%, .396%, and .396% for Series B1, B2, and B3 of the 2003 Series B Bonds, respectively; and .408%, .404%, .398%, .398% and .396% for Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

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The 2003 Series B Bonds in entirety and \$100 million of the 2003 Series C Bonds are insured by Assured Guaranty Municipal Corporation (“AGMC”). The remaining \$300 million of the 2003 Series C Bonds are insured by AMBAC Assurance Corporation (“AMBAC”).

In February 2008, the auctions for the Authority’s ARS in the secondary market began to fail intermittently due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London Interbank Offered Rate (LIBOR) based on the prevailing rating of the series bonds. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200%, or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 1, 2012 through April 30, 2013 ranged from a low of .396% to a high of .428% on the 2003 Series B Bonds and from a low of .396% to a high of .426% on the 2003 Series C Bonds.

On October 2, 2003, the Authority executed six Swaps with three counterparties. The Swaps were executed in conjunction with the Authority’s issuance of \$400 million of its 2003 Series C Bonds (the “Bonds”). The total notional amount of the Swaps was \$400 million. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds. The Authority executed the Swaps in order to effectively convert the variable-rate Bonds to a net fixed rate. Based on the Swaps, the Authority owes interest calculated at a fixed rate of 3.452% to the counterparties that is paid semiannually. In return, the counterparties owe the Authority floating-rate interest equal to 65% of 30-day LIBOR, which is paid to the Authority on a monthly basis. The amortization schedules of the total amount of the Swaps and the Bonds are identical, with each having a final amortization of November 1, 2033.

	2003 Series C Bonds	Interest-rate swaps		
		Principal	Payment	Receipts
Fiscal Year ended:				
2013 (1/2 year)	\$ —	(6,469,480)	243,271	(6,226,209)
2014	5,450,000	(12,844,892)	479,467	(12,365,425)
2015	5,450,000	(12,656,758)	472,393	(12,184,365)
2016	5,450,000	(12,468,624)	465,318	(12,003,306)
2017	5,450,000	(12,280,490)	458,244	(11,822,246)
2018 – 2022	28,075,000	(58,553,256)	2,183,547	(56,369,709)
2023 – 2027	33,150,000	(53,309,236)	1,983,063	(51,326,173)
2028 – 2032	225,300,000	(31,487,418)	1,037,791	(30,449,627)
2033 – 2034	66,500,000	(2,308,525)	43,647	(2,264,878)
Totals	\$ 374,825,000	(202,378,679)	7,366,741	(195,011,938)

The above table includes payments based on the Authority’s fixed-rate Swap payment obligation at an interest rate of 3.452% while the receipts are based on the floating rate equal to 65% of 30-day LIBOR on April 30, 2013 (65% of 0.1997% or 0.1298%), which the counterparties are obligated to pay the Authority on a monthly basis. Receipts are projected based on the latest interest rate at April 30, 2013, but will vary monthly.

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In June 2008, GASB issued GASB No. 53 which addresses the recognition, measurement, and disclosure of information regarding derivative instruments for state and local governments. In accordance with GASB No. 53, the Authority evaluated the effectiveness of the Swaps, determined the Swaps to be effective hedges and recorded the negative fair value of approximately \$98.4 million at April 30, 2013 and \$98.3 million at April 30, 2012 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 per GASB No. 53). The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each Swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the Swaps.

The Authority is exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "Baa1" or higher category from at least one of the nationally recognized credit rating agencies. The counterparties are required to post collateral to the extent that they experience an appreciable decline in credit rating and the Swaps have positive fair value for the Authority.

The Swaps expose the Authority to basis risk should its interest payments on the variable-rate Bonds significantly exceed the 65% of LIBOR receipts.

Debt service on the Senior 2003 and 2009 Bonds (see notes 11 and 12) and the Junior 2003 Bonds is secured by and payable, after satisfaction of certain administrative, operating, and maintenance obligations of the Authority, solely from certain pledged lease revenues and Swap receipts which are required to be deposited and maintained in the PRF established under the 2003 General Bond Resolution. The PRF, including income and earnings on investments thereof, has been pledged and assigned to a trustee for the benefit of the owners of the 2003 and 2009 Senior Bonds or the 2003 Junior Bonds and certain other beneficiaries, as their respective interest may appear. In addition, the Bonds, and certain swap payments and reimbursement obligations, are secured by the Reserve Fund established under the 2003 General Bond Resolution. The rights to payment of the 2003 and 2009 Senior Bonds, senior swap payments, and senior reimbursement obligations from amounts in the PRF and the Reserve Fund are senior to the rights to payment of the 2003 Junior Bonds, junior swap payments, and junior reimbursement obligations from such amounts. As of each November 1, amounts in the PRF in excess of funding requirements for project operating expenses and certain other amounts will be transferred into an unpledged Residual Fund and may be used by the Authority for other purposes (see note 8).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement, to provide for the custody of the Special Fund. The Authority established a new Special Fund to the credit of which was deposited approximately \$46 million. The Special Fund was funded from the proceeds of the former Special Fund created pursuant to a former 1993 Master Revenue Resolution upon the dissolution of such existing Special Fund in connection with the 2003 refunding of outstanding Authority bonds. The Special Fund may only be used by the Authority, as necessary: (i) to pay debt service obligations of the Authority on its bonds, or (ii) for purposes that are jointly agreed upon between the City and the Authority, as the same may be amended from time to time. Neither the Special

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Fund nor the monies on deposit from time to time therein may be pledged to secure any obligation pursuant to any Resolutions authorizing additional bonds or other bonds or debt obligations of the Authority. Income and earnings actually received by or for the account of the Authority from investments of monies on deposit from time to time in the Special Fund shall be treated as revenues (see note 19(f)).

(11) 2009 Revenue Bonds

On December 22, 2009, the Authority issued \$56,600,000 of fixed-rate Senior Revenue Bonds (federally taxable – Build America Bonds), Series A (the “2009 Series A Bonds”) and \$30,635,000 (\$32,446,008 inclusive of net premium) of variable fixed-rate Senior Revenue Bonds, Series B (the 2009 Series B Bonds), for a total of \$89,046,008. The bonds were issued for the following purposes:

- A total of \$85,000,000 of bonds (including \$55,000,000 of the 2009 Series A Bonds, \$30,000,000 of the 2009 Series B Bonds) were issued to finance certain infrastructure and other capital improvements.
- Funds aggregating \$1,544,849, representing the net proceeds of the bond issues after payment of underwriting fees, other issuance costs and allocation of funds to infrastructure and other capital improvements accounts, were deposited into a reserve fund (see note 8).

The payment of principal commences in November 2032 on the 2009 Series A Bonds, while payment on the 2009 Series B Bonds commenced in November 2010.

The 2009 Series A Bonds were issued as “Build America Bonds” (“BABs”) under section 54AA of the U.S. Tax Code for which it expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the Authority on the bonds. For the six-month period ended April 30, 2013, the Authority received the March 2013 payment from the U.S. Treasury in the amount of \$576,508 pursuant to the subsidy. The Authority can give no assurances about future legislation or changes that may affect the availability, amount or receipt of such subsidy payments. The BABs subsidy was reduced to approximately 32% of the interest payable by the Authority on the bonds for Fiscal Year 2013. This is pursuant to the Balanced Budget and Emergency Deficit Control Act issued on March 1, 2013 and implemented on March 27, 2013.

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At April 30, 2013, the 2009 Series A Bonds consist of the following serial bonds:

	<u>Coupon rates</u>		<u>Principal amounts</u>	<u>Interest</u>	<u>BABs subsidy</u>	<u>Interest (net of BABs subsidy)</u>
Fiscal Year ended:						
2013 (1/2 year)	6.375%	\$	—	1,804,125	(576,508)	1,227,617
2014	6.375%		—	3,608,250	(1,262,888)	2,345,362
2015	6.375%		—	3,608,250	(1,262,888)	2,345,362
2016	6.375%		—	3,608,250	(1,262,888)	2,345,362
2017	6.375%		—	3,608,250	(1,262,888)	2,345,362
2018 – 2022	6.375%		—	18,041,250	(6,314,438)	11,726,812
2023 – 2027	6.375%		—	18,041,250	(6,314,438)	11,726,812
2028 – 2032	6.375%		65,000	18,041,250	(6,314,438)	11,726,812
2033 – 2037	6.375%		33,480,000	16,186,284	(5,665,200)	10,521,084
2038 – 2040	6.375%		23,055,000	3,296,672	(1,153,835)	2,142,837
Totals		\$	<u>56,600,000</u>	<u>89,843,831</u>	<u>(31,390,409)</u>	<u>58,453,422</u>

The 2009 Series A Bonds maturing after November 1, 2019 are subject to redemption, in whole or in part, at any time on or after November 1, 2019 at the option of the Authority, at a redemption price of par plus interest to the redemption date.

As of April 30, 2013, principal and interest payments due on the 2009 Series B Bonds are as follows:

	<u>Coupon rates</u>		<u>Principal amounts</u>	<u>Interest</u>
Fiscal Year ended:				
2013 (1/2 year)	2.00%	\$	—	712,328
2014	2.00%		310,000	1,421,556
2015	2.50%		310,000	1,414,581
2016	2.50%		315,000	1,406,769
2017	3.00%		335,000	1,397,806
2018 – 2022	3.00% - 5.00%		1,775,000	6,808,906
2023 – 2027	3.50% - 5.00%		2,005,000	6,368,144
2028 – 2032	4.00% - 4.125%		2,300,000	5,911,097
2033 – 2035	5.00%		22,670,000	1,538,750
Totals		\$	<u>30,020,000</u>	<u>26,979,937</u>

The Authority issued certain of the 2009 Series B Bonds at a premium of approximately \$1.8 million, which is being amortized on a straight-line basis, over the lives of the 2009 Series B Bonds. At April 30, 2013 and 2012, the unamortized net bond premium was approximately \$1.6 million and \$1.6 million, respectively.

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(12) Agreements with the City of New York Relating to Disposition of Revenue

The Authority entered into the Settlement Agreement with the City which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 and 2009 Revenue Bonds (see notes 9, 10 and 11), certain site development costs, and any agreed-upon commitments, will be remitted to the City; and (ii) all other rent payments and other revenue received by the Authority, remaining after payment of a proportionate part of the aforementioned items, will be retained by the Authority and spent in such manner and for such purposes as the Authority in the Joint Purpose Fund and the City shall jointly determine.

The \$103.3 million of PILOT related receipts provided for the transfer to the City during the fiscal year ended October 31, 2012 was paid in June 2013. A provision in the amount of \$47.1 million has been charged as a nonoperating expense for the six-month period ended April 30, 2013.

In January 2010, the City and the Authority signed an agreement (the "2010 Agreement") to distribute \$861 million of excess revenues held by the Authority in the Joint Purpose Fund. The City and State were each allocated \$200 million to be distributed in a pari passu basis. After meeting that \$400 million obligation, an additional amount of up to \$200 million is to be distributed by the Authority to a City 421-A affordable housing fund followed by a \$261 million distribution to a City pay-as-you-go capital fund. All funds are to be paid as available in the Joint Purpose Fund and there is no time limit or a minimum for the amount that needs to be paid or accrued over time.

By May 2011, the Authority fulfilled the \$400 million obligation. Of the \$200 million due to the City 421-A fund, payments totaling \$121.4 million have been made through May 2013. An accrual in the amount of \$19.8 million was charged to operations for the six-month period ended April 30, 2013 as an estimated expected payment under the 2010 Agreement for the City 421-A fund.

(13) Rents and Other Receivables

Rents and other receivables comprise the following at April 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Swap interest receivable	\$ 41,358	49,693
Miscellaneous receivables	968,876	609,901
Due from NYC Pier A - restoration	1,276,875	6,916,861
Interest receivable	950,843	968,382
Due from Community Center Operations	—	1,442,245
Superstorm Sandy receivable	3,888,554	—
Rents receivable	<u>2,146,043</u>	<u>3,679,365</u>
Total receivables	9,272,549	13,666,447
Less allowance for doubtful accounts	<u>(750,616)</u>	<u>(444,185)</u>
Net receivables	<u>\$ 8,521,933</u>	<u>13,222,262</u>

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(14) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at April 30, 2013 and 2012 comprise the following:

	<u>2013</u>	<u>2012</u>
Amounts due to vendors	\$ 2,457,859	1,892,556
Contract retention	2,585,731	2,873,515
Due to developers	27,416	27,416
Superstorm Sandy advances	4,291,426	—
State recovery costs	2,926,398	2,618,182
Accrued payroll and benefits	809,534	718,107
Accrued lease costs – Goldman	—	895,434
Total	<u>\$ 13,098,364</u>	<u>9,025,210</u>

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(15) Long-Term Liabilities

The Organization's bonds and other long-term liabilities as of April 30, 2013 and 2012 are comprised of the following obligations:

	<u>October 31, 2012 (Restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>April 30, 2013</u>	<u>Due within one year</u>
Authority bonds outstanding:					
2003 Revenue Bonds:					
Series 2003A	\$ 350,780,000	—	15,205,000	335,575,000	16,140,000
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	378,900,000	—	4,075,000	374,825,000	5,450,000
Subtotal	964,680,000	—	19,280,000	945,400,000	21,590,000
Unamortized net premiums	16,384,095	—	586,869	15,797,226	—
Subtotal 2003 Bonds	981,064,095	—	19,866,869	961,197,226	21,590,000
Authority bonds outstanding:					
2009 Revenue Bonds:					
Series 2009A	56,600,000	—	—	56,600,000	—
Series 2009B	30,135,000	—	115,000	30,020,000	310,000
Subtotal	86,735,000	—	115,000	86,620,000	310,000
Unamortized net premiums	1,602,941	—	36,424	1,566,517	—
Subtotal 2009 Bonds	88,337,941	—	151,424	88,186,517	310,000
Total bonds outstanding	1,069,402,036	—	20,018,293	1,049,383,743	21,900,000
Other long-term liabilities:					
OPEB - Authority	18,463,988	601,537	636,833	18,428,692	—
OPEB - Conservancy	9,974,259	934,584	—	10,908,843	—
Fair value of interest rate swaps	106,703,964	—	8,290,068	98,413,896	—
Unearned revenue	345,430,849	—	4,350,884	341,079,965	42,672,382
Security and other deposits	22,455,969	421,263	—	22,877,232	88,449
Total other long-term liabilities	503,029,029	1,957,384	13,277,785	491,708,628	42,760,831
Total long-term liabilities	\$ 1,572,431,065	1,957,384	33,296,078	1,541,092,371	64,660,831

Security and other deposits classified as due within one year represent amounts held on behalf of others and are callable on demand.

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	<u>October 31,</u> <u>2011(Restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>April 30,</u> <u>2012(Restated)</u>	<u>Due within</u> <u>one year</u>
Authority bonds outstanding:					
2003 Revenue Bonds:					
Series 2003A	\$ 365,155,000	—	14,375,000	350,780,000	15,205,000
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	385,725,000	—	5,450,000	380,275,000	5,450,000
Subtotal	985,880,000	—	19,825,000	966,055,000	20,655,000
Unamortized net premiums	17,557,833	—	586,869	16,970,964	—
Subtotal 2003 Bonds	1,003,437,833	—	20,411,869	983,025,964	20,655,000
Authority bonds outstanding:					
2009 Revenue Bonds:					
Series 2009A	56,600,000	—	—	56,600,000	—
Series 2009B	30,390,000	—	255,000	30,135,000	115,000
Subtotal	86,990,000	—	255,000	86,735,000	115,000
Unamortized net premiums	1,675,789	—	36,424	1,639,365	—
Subtotal 2009 Bonds	88,665,789	—	291,424	88,374,365	115,000
Total bonds outstanding	1,092,103,622	—	20,703,293	1,071,400,329	20,770,000
Other long-term liabilities:					
OPEB - Authority	17,633,427	797,056	411,171	18,019,312	
OPEB - Conservancy	8,769,643	600,816		9,370,459	
Fair value of interest rate swaps	92,948,044	5,327,557		98,275,601	
Unearned revenue	358,010,660		7,580,977	350,429,683	40,154,555
Security and other deposits	21,233,516	849,907	148,692	21,934,731	88,275
Total other long-term liabilities	498,595,290	7,575,336	8,140,840	498,029,786	40,242,830
Total long-term liabilities	\$ 1,590,698,912	7,575,336	28,844,133	1,569,430,115	61,012,830

Security and other deposits classified as due within one year represent amounts held on behalf of others and are callable on demand.

(16) Retirement Costs

The Authority – The Authority participates in the New York State and Local Employees’ Retirement System (“ERS”), and the Public Employees’ Group Life Insurance Plan (the “Plan”). These are cost-sharing multiple-employer, defined benefit retirement systems. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (the “Comptroller”) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller

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adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement Systems, 110 State Street, Albany, NY 12236.

The ERS is noncontributory for employees in Tiers 1 or 2, who joined the ERS prior to July 27, 1976. Employees who joined the ERS after July 27, 1976 entered into Tiers 3 or 4, which require a 3% contribution of their salary for their first 10 years of service. Employees who joined the ERS after December 31, 2009 entered into Tier 5, which requires a 3% contribution of their salary for all years of service. Employees who joined ERS after March 31, 2012 entered into Tier 6, which requires a contribution ranging between 3 to 6% of their salary, based on their wages, for all years of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension fund.

The Authority is required to contribute at an actuarially determined rate. The required contributions for the current fiscal year and two preceding fiscal years were:

Year	Amount
2013	\$ 540,874
2012	526,582
2011	624,001
	<u>\$ 1,691,457</u>

The Authority's contributions made to the systems were equal to 100% of the contributions required for each year.

The Conservancy – In March 2007, the Conservancy entered into a retirement benefit plan administered by Cultural Institutions Retirement System (“CIRS”) for all eligible employees. CIRS' retirement benefit plan is a cost-sharing multiple-employer sponsored plan consisting of a defined benefit plan (“CIRS Pension Plan”) and a Section 401(k) defined contribution plan (“CIRS Savings Plan”). CIRS is responsible for administering all aspects of the CIRS Pension Plan, including the investment of CIRS Plan assets that are held in trust for beneficiaries of the CIRS Pension Plan. The CIRS Savings Plan allows participants to select their own investments from a range of options. CIRS issues an annual financial summary report for the Plans. The report can be obtained by contacting Cultural Institutions Retirement System or on their website at www.cirsplans.org.

To be eligible under the CIRS Pension Plan, employees must be over the age of 21 and be employed for a minimum of one year at regular status. Benefits paid to retirees are based on age at retirement, years of credited service, and average compensation. The CIRS Pension Plan is a private pension plan governed by ERISA, and is characterized as a multiemployer plan by the U.S. Department of Labor. In the event of CIRS Pension Plan insolvency, the CIRS Pension Plan is covered under the Pension Benefit Guaranty Corporation. The total CIRS Pension Plan costs for eligible employees amounted to \$160.1 thousand and \$168.4 thousand for the periods ended April 30, 2013 and April 30, 2012, respectively. The Conservancy began participation in the CIRS Savings Plan during fiscal 2007. Under the CIRS Savings Plan, participants are required to contribute at least 2% of their base salary and direct the investment of their

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funds based on the investment options offered by the Savings Plan. To be eligible under this plan, employees must be over the age of 21 and be employed for a minimum of 3 months. Total contributions made by participants for the six-month periods ended April 30, 2013 and 2012 were \$111,654 and \$120,059, respectively.

(17) Postemployment Healthcare Plan – Battery Park City Authority

(a) *Plan Description*

The Authority is a participating employer in the New York State Health Insurance Program (“NYSHIP”), which is administered by the State as an agent multiple employer defined benefit plan. Under the plan the Authority provides certain healthcare benefits for eligible retired employees and their dependents under a single-employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plan and to establish maximum obligations of the plan members to contribute to the plan. The Authority’s Board is authorized to establish contribution rates for employees and retirees below those set by Civil Service Law. The Authority’s plan states that employees and/or their dependents become eligible for these benefits at 55 years of age when the employee has 10 years of State service. In calculating the 10-year service requirement, all of the employee’s service need not be with the Authority, but may be a composite of New York State service elsewhere, with a minimum of 3 years with the Authority. Employees with no prior State service must work a minimum of 10 years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees hired on or after November 1, 2001, contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. The Authority covers 100% of the cost of single and dependent coverage for employees hired before November 1, 2001. A vestee is an Authority employee vested as a member of the retirement system administered by the State, has withdrawn from State service after meeting the Authority’s minimum service requirement, but has not met the age requirement for continuing health insurance. As of April 30, 2013, 76 participants, including 45 employees, 1 vestee and 30 retired and/or spouses of retired employees were eligible to receive these benefits. NYSHIP does not issue a stand-alone financial report and NYSHIP’s agent activities are included within the financial statements of the State.

Effective November 1, 2006, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. Through the fiscal year ended October 31, 2006, OPEB provisions were financed on a pay-as-you-go basis. The first actuarial valuation date was November 1, 2006. As an employer with less than 200 members, the Authority is required to perform an actuarial valuation at least triennially, unless there are significant changes in benefit provisions, the size or composition of the population covered by the plan, and/or the factors that impact the long-term assumptions. As such, during 2012 an updated actuarial valuation was completed for the valuation date of November 1, 2012. Actuarial valuations involve estimates of the value of reported amounts, assumptions about the probability of events in the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about employment, mortality and the healthcare cost trend.

The Authority’s annual OPEB cost for the plan is calculated based on the annual required contribution (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Since the Authority used a one-year amortization period, the ARC in future

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years represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any interest on the unfunded actuarial accrued liability. The Authority's current period ARC is approximately \$382 thousand as detailed in the chart in the OPEB Status and Funding Progress section of this note. The 2012 triennial valuation includes an actuarial accrual liability ("AAL") adjustment calculation of \$2.1 million credit due primarily to overestimated increases in premiums. It is consistent with the amortization methodology used to calculate the Amortization of the Unfunded AAL, as permitted by GASB Technical Bulletin No. 2008-1, "*Determining the Annual Required Contribution Adjustment for Postemployment Benefits*," issued on December 15, 2008.

(b) Funding

The contribution requirements (funding) of the Authority's net OPEB obligation are at the discretion of management as approved by the members of the Board. The Authority's net OPEB obligation continues to be financed on a pay-as-you-go basis from assets segregated for the exclusive purpose of paying OPEB obligations.

(c) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.70% (net of administrative expenses) including inflation, declining approximately 0.5% each year to an ultimate trend rate of 4.75%. Both rates include a 2.75% inflation assumption.

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(d) OPEB Status and Funding Progress

The Authority's OPEB obligation and the funded status of the plan as of April 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Actuarial Accrued Liability (AAL):		
Net OPEB obligation beginning of year	\$ 18,463,989	17,633,427
Annual Required Contribution (ARC):		
Normal cost	264,746	417,759
Interest to period end	336,791	374,561
Payments for retirees during period	(254,815)	(224,527)
ARC amortization	<u>(382,019)</u>	<u>(181,908)</u>
Net OPEB obligation end of period	<u>\$ 18,428,692</u>	<u>18,019,312</u>
Actuarial Accrued Liability (AAL) November 1, 2012 and 2011	\$ 18,463,989	17,633,427
Funded OPEB plan assets	<u>—</u>	<u>—</u>
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2012 and 2011	<u>\$ 18,463,989</u>	<u>17,633,427</u>
Funded ratio (actuarial value of plan assets/AAL)	—%	—%
Covered payroll	\$ 4,220,205	3,061,380
UAAL as percentage of covered payroll	438%	576%

Corporate assets held at April 30, 2013 and 2012 in a separate corporate OPEB account for the exclusive purpose of paying OPEB obligations were approximately \$20.3 million and \$19.6 million, respectively. The OPEB assets are included in the statement of net position within the other corporate designated, escrowed, and postemployment benefit funds financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(18) Postemployment Healthcare Plan – Battery Park City Parks Conservancy

(a) Plan Description

The Conservancy decided effective February 1, 2010 to provide its retirees with health benefits as a participating employer in NYSHIP, which is administered by the State as an agent multiple employer defined benefit plan. Under the plan, the Conservancy provides certain healthcare benefits for eligible retired employees and their dependents under a single-employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Conservancy's Board is authorized to establish contribution rates for employees and retirees below those set by Civil Service Law. The Conservancy's Plan states that employees and/or their dependents become eligible for these benefits

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when the employee reaches 55 years of age and has 10 years of service. In calculating the 10-year service requirement, all of the employee's service needs to be with the Conservancy. Employees must work a minimum of 10 years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits which may be offset with sick leave benefits. A vestee is a Conservancy employee vested as a member of the retirement system administered by the CIRS (see note 16), has withdrawn from service after meeting the Conservancy's minimum service requirement, but has not met the age requirement for continuing health insurance. As of April 30, 2013, 78 participants, including 74 employees, 1 vestee, 3 retired and spouses of retired employees were eligible for these benefits. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

Effective February 1, 2010, the Conservancy implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. A new triennial actuarial valuation was performed April 26, 2013 with results rolled into fiscal years 2013, 2014 and 2015. Actuarial valuations involve estimates of the value of reported amounts, assumptions about the probability of events in the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about employment mortality and the healthcare cost trend.

The Conservancy's annual OPEB cost for the plan is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Since the Conservancy used a one-year amortization period, the ARC in future years represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any interest on the unfunded actuarial accrued liability. The Conservancy's current period ARC is approximately \$951 thousand as detailed in the chart in the OPEB Status and Funding Progress section of this note.

(b) Funding

The contribution requirements (funding) of the Conservancy's net OPEB obligation are at the discretion of management as approved by the members of the Board. The Conservancy's net OPEB obligation is expected to be financed on a pay-as-you-go basis from assets segregated for the exclusive purpose of paying OPEB obligations.

(c) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.70% (net of administrative expenses) including inflation, declining approximately 0.5% each year to an ultimate trend rate of 4.75%. Both rates include a 2.75% inflation assumption.

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(d) OPEB Status and Funding Progress

The Conservancy's OPEB obligation and the funded status of the plan as of April 30, 2013 and 2012 are as follows:

	2013	2012
Actuarial Accrued Liability (AAL):		
Net OPEB obligation beginning of year	\$ 9,974,257	8,769,643
Annual Required Contribution (ARC):		
Normal cost	560,550	421,031
Interest to period end	199,989	191,465
Payments for retirees during period	(16,287)	(11,679)
ARC amortization	190,334	—
	\$ 10,908,843	9,370,460
Actuarial Accrued Liability (AAL) November 1, 2012 and November 1, 2011	\$ 9,974,257	8,769,643
Funded OPEB plan assets	—	—
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2012 & November 1, 2011	\$ 9,974,257	8,769,643
Funded ratio (actuarial value of plan assets/AAL)	—%	—%
Covered payroll	\$ 3,904,416	4,065,192
UAAL as percentage of covered payroll	255%	216%

Corporate assets held at April 30, 2013 and 2012 in a separate corporate OPEB account for the exclusive purpose of paying OPEB obligations were approximately \$10.4 million and \$9.8 million, respectively. The OPEB assets are included in the statement of net position within the other corporate designated, escrowed, and postemployment benefit funds financial statement classification. The Conservancy's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(19) Commitments and Other Matters

- (a) The Authority has entered into construction and other related contracts, having unexpended balances aggregating approximately \$22.3 million as of April 30, 2013.
- (b) The Authority rents office space in One World Financial Center, as well as community meeting space, field offices, and maintenance space in condominium buildings in Battery Park City. Total rent expense amounted to \$743 thousand and \$749 thousand for the six-month periods ended April 30, 2013 and 2012, respectively. The future minimum lease payments are as follows:

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Fiscal Year:		
2013 (1/2 year)	\$	739,915
2014		1,168,626
2015		87,010
Total minimum payments required	\$	<u>1,995,551</u>

- (c) The terrorist attack on the World Trade Center on September 11, 2001 destroyed the North Bridge and severely damaged the South Bridge owned by the Authority. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of \$38 million. Pursuant to a written agreement made in December 2005, the insurance monies were deposited, in May 2006, into an interest-bearing account (“Insurance Fund”), jointly controlled by the Authority and the Management Committee of the World Financial Center, (comprised of Brookfield Financial Properties, American Express Company, and Merrill Lynch & Co.), for the purposes of: (i) improving pedestrian access to the World Financial Center in the area where the North Bridge had been destroyed, (ii) restoring the South Bridge, and (iii) the construction of the World Financial Center Pavilion. These funds are not recorded as assets of the Authority in the accompanying statements of net position.

In March 2009, the Authority and the Management Committee entered into an agreement permitting the following withdrawals from the Insurance Fund: (i) up to \$1,747,000 to fund the cost of the foundation of a structure, proposed by Brookfield, which would shelter the escalator bank in front of, and provide access to, the Winter Garden, from a pedestrian concourse which The Port Authority of New York & New Jersey (“PANYNJ”), and now Brookfield, is constructing under West Street, connecting the World Trade Center site and the World Financial Center, (ii) up to \$4,405,000 to fund the Authority’s construction of an eastern extension of the South Bridge, as part of a project to renovate the Bridge. The Authority’s only withdrawal was in March 2010 of \$483,288 to fund certain soft costs of the Authority for the South Bridge extension.

The remaining funds are to be used by Brookfield for the construction of the World Financial Center Pavilion, of which withdrawals have been made totaling \$30,177,306 at April 30, 2013.

- (d) In November 2007, the Authority designated the New York City School Construction Authority (“SCA”) as the ground lessee and developer of Site 2B for the purpose of constructing a public school for elementary and intermediate school students. The school opened in the fall of 2010 and the Authority will receive nominal rent for the site.
- (e) The City owns Pier A (a three-story historic landmark building), and a contiguous upland area (together, the “Pier”), which are located adjacent to the Project at its southern tip. In December 2007, the Authority and the City executed a nonbinding Term Sheet, providing for their negotiation in good faith of a long-term lease of the Pier (the “Lease”), based on the major terms described in the Term Sheet. The lease was executed in October 2008. Under the lease, the Authority is redeveloping the Pier with funding provided by the City, which will then be used for recreational, maritime, and ancillary uses, including retail purposes. At April 30, 2013 and 2012, the cumulative amounts the Authority had received from the City for Pier A related costs, were approximately \$28.7 million and \$13.1 million, respectively.

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- (f) On October 23, 2007, the members of the Authority approved a proposal by the Governor to pay up to \$40 million of Special Fund monies (see note 10) to the PANYNJ for the construction of a planned pedestrian concourse running under Route 9A. The concourse will connect the Winter Garden (on the west, at the edge of Battery Park City) and the World Trade Center site on the east. As of April 30, 2013, the Authority disbursed a total sum of \$37,896,480 to the PANYNJ.
- (g) Pursuant to its ground lease with Goldman providing for construction by Goldman of a new world headquarters building in Battery Park City, the Authority entered into an arrangement as of July 18, 2007 under which Goldman may make purchases related to construction, furnishing, and equipping the building without liability for New York State and City sales tax, for an aggregate sales tax exemption of up to \$60 million. To qualify for the exemption, the Authority is liable for payment of Goldman's purchases in connection with the building, in an amount not to exceed \$100 million (in addition to the value of goods delivered to the building), which purchases Goldman is to make as agent of the Authority, but which Goldman is obligated to pay pursuant to its ground lease. The Goldman Sachs Group, Inc. (the corporate parent of Goldman) executed a guaranty to assure reimbursement of any amounts paid by the Authority as a consequence of this arrangement. The likelihood of any payments made directly by the Authority resulting from this arrangement is considered remote.
- (h) For the six-month period ended April 30, 2013, the Authority received approximately \$4.3 million in insurance and Federal assistance advances and has paid out approximately \$3.7 million for remediation work for damage caused by super storm Sandy. The Authority's management believes that all eligible claims with respect to this damage will be collected from its insurance carriers. Damages are being assessed and costs not covered by insurance are being submitted for reimbursement under Federal and State disaster relief programs, which management believes will cover the majority of these costs. Any unreimbursed damages will be paid by the Authority from the corporate insurance reserve fund.

(20) Battery Park City Parks Conservancy

The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation. The Authority, as sole member of the Conservancy, designated the Authority's members to serve as the Conservancy's board of directors. By approval of the Board of Directors, the Conservancy added the Authority's President as an additional director. The Conservancy was formed by the Authority to comply with certain requirements of agreements between the Authority and the City pursuant to which the Authority is obligated to maintain and repair the parks and open spaces in and around Battery Park City's residential areas. In March 1988, the Authority entered into a management agreement with the Conservancy, which authorized the Conservancy to undertake all responsibilities, related to the operation, maintenance, and repair of such parks and open spaces. For the six-month periods ended April 30, 2013 and 2012, the Authority paid the Conservancy approximately \$4.6 million and \$4.1 million, respectively, for services, which are included in the Authority's operating expenses. Additionally, approximately \$450 thousand and \$186 thousand at April 30, 2013 and 2012, respectively, is payable by the Authority to the Conservancy. Both are eliminated in the blending of the Conservancy's financial statements into the Authority's financial statements (see Other Supplementary Information – Combining Balance Sheet).

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(21) Litigation

Approximately 800 claims have been asserted against the Authority in the United States District Court for the Southern District of New York (hereinafter referred to as the “Court”) by plaintiffs who worked in and around the World Trade Center site after the September 11th attack (such claims hereinafter referred to as the “9/11 Claims”). Some of the plaintiffs had performed clean-up activities for ground lessees of the Authority and for the tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. The Authority’s ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, Brookfield, Merrill Lynch and Lefrak have agreed to assume the defense of the 9/11 Claims related to the premises that they control. The Authority is pursuing the tender of the remaining claims to its other ground lessees. Certain of the Authority’s insurers have taken the position that their insurance policies for the applicable period do not provide coverage to the Authority for these claims.

Current Status: In November 2010, off-site cases (i.e. cases in the area surrounding the World Trade Center site, such as those in Battery Park City) were permitted to proceed with litigation. However, the James Zadroga 9/11 Health and Compensation Act of 2010 (the “Zadroga Act”) bars Plaintiffs participating in the amended 2001 Victim Compensation Fund from suing the Authority and requires them to drop their lawsuits, thereby reducing the Authority’s potential exposure. A total of 153 plaintiffs with claims against the Authority chose to drop their lawsuits and participate in the amended VCF. The Court has so ordered these dismissals and 153 cases against the Authority have been dismissed with prejudice.

The Court subsequently dismissed an additional 81 cases against the Authority with prejudice due to the plaintiffs’ failure to properly verify their responses under oath as required by the Court ordered database of off-site cases. The Second Circuit, Court of Appeals recently affirmed the dismissal of these cases. Out of the 81 cases, 74 of those cases had also elected to participate in the VCF and were included in the Court’s order dismissing the 153 cases referenced above.

As a result of a motion to dismiss those cases where the plaintiffs did not allege a physical injury, alleged only a fear of cancer or only sought medical monitoring, the Court dismissed a further 104 cases against the Authority with prejudice. The dismissal of these cases is presently the subject of an appeal by the plaintiffs to the Second Circuit, Court of Appeals.

As a result of these dismissals together with Claims that were abandoned or never pursued, 534 cases (including Claims for which tender was accepted) remain against the Authority.

The Authority is named as a defendant in 7 of the 9 first phase cases that are nearing completion of discovery and has successfully tendered its defense to its lessees in 3 of those cases. The Court recently ordered the second phase of discovery to begin, which consists of 30 cases in which the Authority is named as a defendant in 25. However, many of these plaintiffs are making claims against the Authority for locations where the Authority is receiving a defense and indemnification from Brookfield, Merrill Lynch or Lefrak. The Court has ordered that 15 cases proceed to trial on July 14, 2014.

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Other Supplementary Information – Combining Statement of Net Position

April 30, 2013 (Unaudited)

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	\$ 10,689	479,375	—	490,064
Investments	1,166,434	—	—	1,166,434
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of \$750,616)	8,519,699	451,801	(449,567)	8,521,933
2003 Revenue Bond Resolution Funds	250,625,030	—	—	250,625,030
2009 Revenue Bond Resolution Funds	2,826,453	—	—	2,826,453
Corporate-designated and escrowed funds	49,098,455	—	—	49,098,455
Total current assets	<u>312,246,760</u>	<u>931,176</u>	<u>(449,567)</u>	<u>312,728,369</u>
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	86,859,379	—	—	86,859,379
2009 Revenue Bond Resolution Funds	25,756,198	—	—	25,756,198
Residential lease required funds	22,142,151	—	—	22,142,151
Corporate-designated, escrowed, and OPEB funds	76,293,529	—	—	76,293,529
Bond insurance costs, less accumulated amortization of \$8,899,070	21,050,542	—	—	21,050,542
Battery Park City project assets – at cost, less accumulated depreciation	485,746,682	—	—	485,746,682
Other assets	4,965,278	286,011	—	5,251,289
Total noncurrent assets	<u>722,813,759</u>	<u>286,011</u>	<u>—</u>	<u>723,099,770</u>
Total assets	<u>1,035,060,519</u>	<u>1,217,187</u>	<u>(449,567)</u>	<u>1,035,828,139</u>
Deferred Outflows of Resources				
Accumulated decrease in fair value of interest rate swaps	98,413,896	—	—	98,413,896
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	17,702,853	—	—	17,702,853
Total deferred outflows of resources	<u>116,116,749</u>	<u>—</u>	<u>—</u>	<u>116,116,749</u>
Total assets and deferred outflows of resources	<u>\$ 1,151,177,268</u>	<u>1,217,187</u>	<u>(449,567)</u>	<u>1,151,944,888</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Other Supplementary Information – Combining Statement of Net Position

April 30, 2013 (Unaudited)

Liabilities and Net Position	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 17,676,011		—	17,676,011
Accounts payable and other liabilities	12,905,871	642,060	(449,567)	13,098,364
Due to the City of New York	150,356,587	—	—	150,356,587
Due to the City of New York - 2010 Agreement	65,951,155	—	—	65,951,155
Due to the Port Authority of New York & New Jersey	—	—	—	—
Due to NYC School Construction Authority	1,898,808	—	—	1,898,808
Unearned revenue (note 3(d)):				
PILOT revenue	27,596,258	—	—	27,596,258
Base rent and other revenue	15,076,124	—	—	15,076,124
Security and other deposits	88,449	—	—	88,449
2003 Revenue Bonds	21,590,000	—	—	21,590,000
2009 Revenue Bonds	310,000	—	—	310,000
Total current liabilities	<u>313,449,263</u>	<u>642,060</u>	<u>(449,567)</u>	<u>313,641,756</u>
Noncurrent liabilities:				
Unearned revenue (note 3(d)):				
Base rent and other revenue	298,407,583	—	—	298,407,583
Security and other deposits	22,788,783	—	—	22,788,783
OPEB - Battery Park City Authority	18,428,692	—	—	18,428,692
OPEB - Battery Park City Parks Conservancy	—	10,908,843	—	10,908,843
Fair value of interest rate swaps	98,413,896	—	—	98,413,896
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$11,198,746	939,607,226	—	—	939,607,226
2009 Revenue Bonds, less accumulated amortization of \$244,491	87,876,517	—	—	87,876,517
Total noncurrent liabilities	<u>1,465,522,697</u>	<u>10,908,843</u>	<u>—</u>	<u>1,476,431,540</u>
Total liabilities	<u>1,778,971,960</u>	<u>11,550,903</u>	<u>(449,567)</u>	<u>1,790,073,296</u>
Net position (deficit):				
Invested in capital assets, net of related debt	(5,251,269)	—	—	(5,251,269)
Restricted:				
Debt service	85,548,237	—	—	85,548,237
Under bond resolutions and other agreements	1,823,208	—	—	1,823,208
Unrestricted (deficit)	(709,914,868)	(10,333,716)	—	(720,248,584)
Total net position (deficit)	<u>(627,794,692)</u>	<u>(10,333,716)</u>	<u>—</u>	<u>(638,128,408)</u>
Total liabilities and net position (deficit)	<u>\$ 1,151,177,268</u>	<u>1,217,187</u>	<u>(449,567)</u>	<u>1,151,944,888</u>

See independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Other Supplementary Information – Combining Statement of Net Position

April 30, 2012 (Restated) (Unaudited)

Liabilities and Net Position	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 18,162,829	—	—	18,162,829
Accounts payable and other liabilities	8,622,806	588,301	(185,897)	9,025,210
Due to the City of New York	129,483,298	—	—	129,483,298
Due to the City of New York - 2010 Agreement	61,657,016	—	—	61,657,016
Due to the Port Authority of New York & New Jersey	18,351	—	—	18,351
Due to NYC School Construction Authority	—	—	—	—
Unearned revenue (note 3(d)):				
PILOT revenue	26,742,675	—	—	26,742,675
Base rent and other revenue	13,411,880	—	—	13,411,880
Security and other deposits	88,275	—	—	88,275
2003 Revenue Bonds	20,655,000	—	—	20,655,000
2009 Revenue Bonds	115,000	—	—	115,000
Total current liabilities	<u>278,957,130</u>	<u>588,301</u>	<u>(185,897)</u>	<u>279,359,534</u>
Noncurrent liabilities:				
Unearned revenue (note 3(d)):				
Base rent and other revenue	310,275,128	—	—	310,275,128
Security and other deposits	21,846,456	—	—	21,846,456
OPEB - Battery Park City Authority	18,019,312	—	—	18,019,312
OPEB - Battery Park City Parks Conservancy	—	9,370,459	—	9,370,459
Fair value of interest rate swaps	98,275,601	—	—	98,275,601
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$10,025,008	962,370,964	—	—	962,370,964
2009 Revenue Bonds, less accumulated amortization of \$171,642	88,259,365	—	—	88,259,365
Total noncurrent liabilities	<u>1,499,046,826</u>	<u>9,370,459</u>	<u>—</u>	<u>1,508,417,285</u>
Total liabilities	<u>1,778,003,956</u>	<u>9,958,760</u>	<u>(185,897)</u>	<u>1,787,776,819</u>
Net position (deficit):				
Invested in capital assets, net of related debt	(4,756,998)	—	—	(4,756,998)
Restricted:				
Debt service	84,731,183	—	—	84,731,183
Under bond resolutions and other agreements	515,572	—	—	515,572
Unrestricted (deficit)	<u>(724,682,048)</u>	<u>(9,145,543)</u>	<u>—</u>	<u>(733,827,591)</u>
Total net position (deficit)	<u>(644,192,291)</u>	<u>(9,145,543)</u>	<u>—</u>	<u>(653,337,834)</u>
Total liabilities and net position (deficit)	<u>\$ 1,133,811,665</u>	<u>813,217</u>	<u>(185,897)</u>	<u>1,134,438,985</u>

See independent auditors' review report.

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Other Supplementary Information – Combining Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

Six-month period ended April 30, 2013 (Unaudited)

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 31,223,849	—	—	31,223,849
Supplemental rent	999,850	—	—	999,850
Payments in lieu of real estate taxes	78,167,873	—	—	78,167,873
Civic facilities payments and other	7,216,111	4,730,781	(4,565,009)	7,381,883
Total operating revenues	<u>117,607,683</u>	<u>4,730,781</u>	<u>(4,565,009)</u>	<u>117,773,455</u>
Operating expenses:				
Wages and related benefits	3,148,918	3,136,406	—	6,285,324
OPEB - Battery Park City Authority	219,519	—	—	219,519
OPEB - Battery Park City Parks Conservancy	—	950,873	—	950,873
Other operating and administrative expenses	11,996,142	790,384	(4,565,009)	8,221,517
Depreciation of project assets	4,161,870	—	—	4,161,870
Other depreciation and amortization	856,795	45,935	—	902,730
Total operating expenses	<u>20,383,244</u>	<u>4,923,598</u>	<u>(4,565,009)</u>	<u>20,741,833</u>
Operating income	<u>97,224,439</u>	<u>(192,817)</u>	<u>—</u>	<u>97,031,622</u>
Nonoperating revenues (expenses):				
Investment income on funds relating to:				
2003 Revenue Bonds	1,082,954	—	—	1,082,954
2009 Revenue Bonds	61,580	—	—	61,580
Corporate-designated, escrowed, and OPEB funds	1,035,011	—	—	1,035,011
Realized and unrealized gains and losses	(745,403)	—	—	(745,403)
Other revenue	225,980	—	—	225,980
Gain (loss) on project assets	—	150	—	150
Interest expense relating to:				
2003 Swap agreements – net expense	(6,216,214)	—	—	(6,216,214)
2003 Revenue Bonds	(9,436,553)	—	—	(9,436,553)
2009 Revenue Bonds	(1,903,521)	—	—	(1,903,521)
Loss from extinguishment	(697,757)	—	—	(697,757)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts				
	(47,072,824)	—	—	(47,072,824)
Provision for transfer to the City of New York per 2010 agreement				
	(19,808,177)	—	—	(19,808,177)
Pier A Construction Pass Through NYC				
	(2,484,545)	—	—	(2,484,545)
Total nonoperating expenses	<u>(85,959,469)</u>	<u>150</u>	<u>—</u>	<u>(85,959,319)</u>
Change in net position (deficit)	11,264,970	(192,667)	—	11,072,303
Net (deficit), beginning of period	(617,878,567)	(10,141,049)	—	(628,019,616)
Effect of adoption of GASB 65	(21,181,095)	—	—	(21,181,095)
Net (deficit), beginning of period (Restated)	<u>(639,059,662)</u>	<u>(10,141,049)</u>	<u>—</u>	<u>(649,200,711)</u>
Net (deficit), end of period	<u>\$ (627,794,692)</u>	<u>(10,333,716)</u>	<u>—</u>	<u>(638,128,408)</u>

See independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Revenues, Expenses, and Changes in Net Position (Deficit)

Six-month period ended April 30, 2012 (Restated) (Unaudited)

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 29,766,254	—	—	29,766,254
Supplemental rent	801,879	—	—	801,879
Payments in lieu of real estate taxes	79,859,277	—	—	79,859,277
Civic facilities payments and other	6,267,742	4,352,909	(4,144,897)	6,475,754
Total operating revenues	<u>116,695,152</u>	<u>4,352,909</u>	<u>(4,144,897)</u>	<u>116,903,164</u>
Operating expenses:				
Wages and related benefits	3,887,726	3,153,933	—	7,041,659
OPEB - Battery Park City Authority	610,412	—	—	610,412
OPEB - Battery Park City Parks Conservancy	—	612,495	—	612,495
Other operating and administrative expenses	10,722,794	677,591	(4,144,897)	7,255,488
Depreciation of project assets	4,074,630	—	—	4,074,630
Other depreciation and amortization	812,877	34,792	—	847,669
Total operating expenses	<u>20,108,439</u>	<u>4,478,811</u>	<u>(4,144,897)</u>	<u>20,442,353</u>
Operating income	<u>96,586,713</u>	<u>(125,902)</u>	<u>—</u>	<u>96,460,811</u>
Nonoperating revenues (expenses):				
Investment income on funds relating to:				
2003 Revenue Bonds	1,244,688	—	—	1,244,688
2009 Revenue Bonds	218,233	—	—	218,233
Corporate-designated, escrowed, and OPEB funds	1,077,638	—	—	1,077,638
Realized and unrealized gains and losses	496,982	—	—	496,982
Interest expense relating to:				
2003 Swap agreements – net interest expense	(6,238,411)	—	—	(6,238,411)
2003 Revenue Bonds	(10,170,852)	—	—	(10,170,852)
2009 Revenue Bonds	(1,849,734)	—	—	(1,849,734)
Loss from extinguishment	(697,931)	—	—	(697,931)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	(41,859,513)	—	—	(41,859,513)
Provision for transfer to the City of New York per 2010 agreement	(24,642,329)	—	—	(24,642,329)
Total nonoperating expenses	<u>(82,421,229)</u>	<u>—</u>	<u>—</u>	<u>(82,421,229)</u>
Change in net position (deficit)	14,165,484	(125,902)	—	14,039,582
Net (deficit), beginning of period	(636,134,985)	(9,019,641)	—	(645,154,626)
Effect of adoption of GASB 65	(22,222,790)	—	—	(22,222,790)
Net (deficit), beginning of period (Restated)	<u>(658,357,775)</u>	<u>(9,019,641)</u>	<u>—</u>	<u>(667,377,416)</u>
Net (deficit), end of period	<u>\$ (644,192,291)</u>	<u>(9,145,543)</u>	<u>—</u>	<u>(653,337,834)</u>

See independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows

Six-month period ended April 30, 2013 (Unaudited)

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 114,313,355	—	—	114,313,355
Receipts from the Authority	—	4,074,878	(4,074,878)	—
Miscellaneous receipts	549,184	174,289	—	723,473
Total cash receipts from operating activities	<u>114,862,539</u>	<u>4,249,167</u>	<u>(4,074,878)</u>	<u>115,036,828</u>
Cash payments for:				
Salaries and benefits	(3,519,346)	(3,299,629)	—	(6,818,975)
Services and supplies	(7,723,183)	(438,059)	4,074,878	(4,086,364)
Total cash payments for operating activities	<u>(11,242,529)</u>	<u>(3,737,688)</u>	<u>4,074,878</u>	<u>(10,905,339)</u>
Net cash provided by operating activities	<u>103,620,010</u>	<u>511,479</u>	<u>—</u>	<u>104,131,489</u>
Cash flows from noncapital financing activities:				
Receipts from the City of New York – Pier A	15,599,693			15,599,693
Payments to Pier A Contractors on behalf of the City of New York	(5,952,827)	—	—	(5,952,827)
Payments from lessees – site security deposits	250,340	—	—	250,340
Payments to The Port Authority of New York & New Jersey	(3,820,328)	—	—	(3,820,328)
Net cash provided by noncapital financing activities	<u>6,076,878</u>	<u>—</u>	<u>—</u>	<u>6,076,878</u>
Cash flows from capital and related financing activities:				
Development costs – site improvements and construction	(1,422,634)	—	—	(1,422,634)
Capital asset expenditures	(12,417)	(44,492)	—	(56,909)
Receipts from the sale of capital assets	—	150	—	150
Payments for Super Storm Sandy	(3,690,852)	—	—	(3,690,852)
Proceeds from Super Storm Sandy	4,256,000	—	—	4,256,000
JPMC Muni Bond derivative settlement	225,980	—	—	225,980
Auction fees for variable debt	(187,614)	—	—	(187,614)
Swap payment made on the 2003 Swap agreement	(6,563,547)	—	—	(6,563,547)
Swap interest payments received on the 2003 Swap agreement	257,352	—	—	257,352
Principal paydown on 2003 Revenue Bonds	(19,280,000)	—	—	(19,280,000)
Interest paid on 2003 Senior Revenue Bonds	(8,957,991)	—	—	(8,957,991)
Interest paid on 2003 Junior Revenue Bonds	(1,276,095)	—	—	(1,276,095)
Principal paydown on 2009 Senior Revenue Bonds	(115,000)	—	—	(115,000)
Interest paid on 2009 Senior Revenue Bonds	(2,517,603)	—	—	(2,517,603)
2009 Senior Revenue Bonds - Build America Bonds refund from U.S. Treasury	576,508	—	—	576,508
Net cash used in capital and related financing activities	<u>(38,707,913)</u>	<u>(44,342)</u>	<u>—</u>	<u>(38,752,255)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	2,292,248	—	—	2,292,248
Maturities and redemptions of investment securities	310,855,003	—	—	310,855,003
Purchases of investment securities	(352,131,507)	—	—	(352,131,507)
Net cash used in investing activities	<u>(38,984,256)</u>	<u>—</u>	<u>—</u>	<u>(38,984,256)</u>
Increase (decrease) in cash and cash equivalents	32,004,719	467,137	—	32,471,856
Cash and cash equivalents, beginning of period	<u>121,127,954</u>	<u>12,238</u>	<u>—</u>	<u>121,140,192</u>
Cash and cash equivalents, end of period	<u>\$ 153,132,673</u>	<u>479,375</u>	<u>—</u>	<u>153,612,048</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows

Six-month period ended April 30, 2013 (Unaudited)

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 97,224,439	(192,817)	—	97,031,622
Adjustments to reconcile operating income to net cash provided by operating activities:				
Bad debt expense	108,451		—	108,451
Depreciation and amortization	5,018,665	45,935	—	5,064,600
Other	100,162	—	—	100,162
Changes in operating assets and liabilities:				
Decrease (increase) in rents and other receivables	2,030,635	(349,446)	349,812	2,031,001
Decrease (increase) in other assets	38,574	32,846	—	71,420
Increase (decrease) in accounts payable and other liabilities	3,485,264	40,375	(349,812)	3,175,827
Decrease in unearned revenue	(4,350,884)	—	—	(4,350,884)
Increase in OPEB	(35,296)	934,586	—	899,290
Net cash provided by operating activities	\$ <u>103,620,010</u>	<u>511,479</u>	<u>—</u>	<u>104,131,489</u>
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 10,689	479,375	—	490,064
Cash and cash equivalents	926,609	—	—	926,609
Investments with less than 91-day maturities	<u>152,195,375</u>	<u>—</u>	<u>—</u>	<u>152,195,375</u>
 Cash and cash equivalents, end of period	\$ <u><u>153,132,673</u></u>	<u><u>479,375</u></u>	<u><u>—</u></u>	<u><u>153,612,048</u></u>

See independent auditors' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows

Six-month period ended April 30, 2012 (Restated) (Unaudited)

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 108,870,310	—	—	108,870,310
Receipts from the Authority	—	3,855,718	(3,855,718)	—
Miscellaneous receipts	<u>603,030</u>	<u>211,570</u>	<u>—</u>	<u>814,600</u>
Total cash receipts from operating activities	<u>109,473,340</u>	<u>4,067,288</u>	<u>(3,855,718)</u>	<u>109,684,910</u>
Cash payments for:				
Salaries and benefits	(4,044,324)	(3,320,000)	—	(7,364,324)
Services and supplies	<u>(8,906,182)</u>	<u>(439,350)</u>	<u>3,855,718</u>	<u>(5,489,814)</u>
Total cash payments for operating activities	<u>(12,950,506)</u>	<u>(3,759,350)</u>	<u>3,855,718</u>	<u>(12,854,138)</u>
Net cash provided by operating activities	<u>96,522,834</u>	<u>307,938</u>	<u>—</u>	<u>96,830,772</u>
Cash flows from noncapital financing activities:				
Payments to Battery Park City Library	(45,807)	—	—	(45,807)
Receipts from the City of New York – Pier A	—	—	—	—
Payments to Pier A Contractors on behalf of the City of New York	(5,020,415)	—	—	(5,020,415)
Payments from lessees – site security deposits	447,307	—	—	447,307
Payments to lessees - site security deposits	(82,965)	—	—	(82,965)
Payments to The Port Authority of New York & New Jersey	<u>(20,638,145)</u>	<u>—</u>	<u>—</u>	<u>(20,638,145)</u>
Net cash used in noncapital financing activities	<u>(25,340,025)</u>	<u>—</u>	<u>—</u>	<u>(25,340,025)</u>
Cash flows from capital and related financing activities:				
Development costs – site improvements and construction	(9,401,096)	—	—	(9,401,096)
Capital asset expenditures	(816,993)	(28,059)	—	(845,052)
Auction fees for variable debt	(189,314)	—	—	(189,314)
Swap payment made on the 2003 Swap agreement	(6,657,614)	—	—	(6,657,614)
Swap interest payments received on the 2003 Swap agreement	327,138	—	—	327,138
Principal paydown on 2003 Revenue Bonds	(19,825,000)	—	—	(19,825,000)
Interest paid on 2003 Senior Revenue Bonds	(9,278,219)	—	—	(9,278,219)
Interest paid on 2003 Junior Revenue Bonds	(1,616,237)	—	—	(1,616,237)
Principal paydown on 2009 Senior Revenue Bonds	(255,000)	—	—	(255,000)
Interest paid on 2009 Senior Revenue Bonds	(2,520,153)	—	—	(2,520,153)
2009 Senior Revenue Bonds - Build America Bonds refund from U.S. Treasury	<u>631,444</u>	<u>—</u>	<u>—</u>	<u>631,444</u>
Net cash used in capital and related financing activities	<u>(49,601,044)</u>	<u>(28,059)</u>	<u>—</u>	<u>(49,629,103)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	2,767,079	—	—	2,767,079
Maturities and redemptions of investment securities	170,617,247	—	—	170,617,247
Purchases of investment securities	<u>(242,751,565)</u>	<u>—</u>	<u>—</u>	<u>(242,751,565)</u>
Net cash used in investing activities	<u>(69,367,239)</u>	<u>—</u>	<u>—</u>	<u>(69,367,239)</u>
Increase (decrease) in cash and cash equivalents	(47,785,474)	279,879	—	(47,505,595)
Cash and cash equivalents, beginning of period	<u>208,688,521</u>	<u>105,410</u>	<u>—</u>	<u>208,793,931</u>
Cash and cash equivalents, end of period	<u>\$ 160,903,047</u>	<u>385,289</u>	<u>—</u>	<u>161,288,336</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
(A Component Unit of the State of New York)

Other Supplementary Information – Combining Statement of Cash Flows
Six-month period ended April 30, 2012 (Restated) (Unaudited)

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 96,586,713	(125,902)	—	96,460,811
Adjustments to reconcile operating income to net cash provided by operating activities:				
Bad debt expense	89,723	—	—	89,723
Depreciation and amortization	5,688,581	34,792	—	5,723,373
Other	(162,925)	—	—	(162,925)
Changes in operating assets and liabilities:				
Decrease (increase) in rents and other receivables	(1,711,726)	(190,176)	176,044	(1,725,858)
Decrease (increase) in other assets	116,994	(42,390)	—	74,604
Increase (decrease) in accounts payable and other liabilities	3,110,566	30,798	(176,044)	2,965,320
Decrease in deferred revenue	(7,580,977)	—	—	(7,580,977)
Increase in OPEB	385,885	600,816	—	986,701
Net cash provided by operating activities	\$ 96,522,834	307,938	—	96,830,772
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 12,718	385,289	—	398,007
Cash and cash equivalents	1,958,147	—	—	1,958,147
Investments with less than 91-day maturities	158,932,182	—	—	158,932,182
Cash and cash equivalents, end of period	\$ 160,903,047	385,289	—	161,288,336

See independent auditors' review report.