



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

Basic Financial Statements

October 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

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

October 31, 2006 and 2005

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KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

### The Members

Hugh L. Carey Battery Park City Authority:

We have audited the accompanying basic financial statements of the Hugh L. Carey Battery Park City Authority (the Authority), a component unit of the State of New York, as of and for the years ended October 31, 2006 and 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hugh L. Carey Battery Park City Authority as of October 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 17 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 9, 2007

# HUGH L. CAREY BATTERY PARK CITY AUTHORITY

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Management's Discussion and Analysis

October 31, 2006 and 2005

(Unaudited – See accompanying independent auditors' report)

## Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) for fiscal years ended October 31, 2006 and 2005. The basic financial statements of the Authority, which include the balance sheets, the statements of revenues, expenses, and changes in net deficit, and the statements of cash flows, and the notes to the financial statements, provide information about the Authority in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

## Comparison of 2006 to 2005

### *Financial Highlights*

- On December 30, 2005, a ground lease for the development of Site 16/17 between the Authority and Site 16/17 Development LLC became effective and the Authority was paid \$60 million as a nonrefundable "upfront payment", as well as \$5.4 million for base rent and payment in lieu of taxes (PILOT) for the period January 1, 2005 through December 29, 2005. Approximately \$8.8 million of revenues including \$4.3 million of PILOT, \$3.1 million of base rent, and \$1.4 million of other rents were recorded as revenues during the fiscal year ended October 31, 2006. Regular payments of base rent, PILOT, and other elements of rent, including a share of the sales proceeds of the condominium units, will be received by the Authority over the remaining lease term.
- On August 17, 2006, a ground lease between the Authority and Battery Place Green, LLC for the development of a residential building on Site 3 in the south neighborhood of Battery Park City became effective. The Authority was paid \$4 million as an upfront lease payment in February 2006, and in October 2006 the Authority was paid an additional \$7.5 million as the next installment of a total of \$42.5 million in upfront payments. In accordance with the lease terms, the remaining upfront payments due to the Authority will be paid within seven months after issuance of the first certificate of occupancy for the building. Regular payments of base rent, PILOT, and other elements of rent will be received by the Authority over the remaining lease term.
- The year ended October 31, 2006 yielded a total of \$192.4 million in operating revenues, representing an increase of approximately \$12.8 million or 7.1% over the prior fiscal year. PILOT revenue (which accounts for approximately 68% of the Authority's operating revenues) increased approximately \$4.5 million as a result of additions in assessments and increases in tax rates by the City and the addition of new leases over the previous year ended October 31, 2005. Base rents increased \$8.8 million over the same period due to scheduled increases in lease payments and new leased parcels.
- A provision for the transfer to the City of \$111.4 million in excess revenues was charged for the fiscal year ended October 31, 2006. Generally, the Authority's change in net assets will decrease with increases in the amount of excess revenues to be provided to the City, which will have an adverse effect on the Authority's net asset position.

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- At October 31, 2006, the Authority retains approximately \$103.4 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. Approximately \$36.6 million is expected to be transferred to the New York City Housing Trust Fund in February 2007, satisfying the Authority's \$130 million commitment (see note 18(g)). In addition, at October 31, 2006, the Authority holds approximately \$51.8 million in the Project Costs account to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 9).

**Summary Schedule of Net Assets**

The schedule of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets are the difference between total assets and total liabilities. A summarized comparison of the Authority's assets, liabilities, and net deficit at October 31, 2006 and 2005 is as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2006</b>	<b>2005</b>	
<b>Assets:</b>			
Cash and rents and other receivables	\$ 6,470,458	12,729,702	(6,259,244)
Bond resolution restricted assets (current and noncurrent)	378,264,432	341,334,547	36,929,885
Battery Park City project assets, net	385,016,482	368,427,407	16,589,075
Other current and noncurrent assets	183,028,121	225,569,877	(42,541,756)
Total assets	<u>\$ 952,779,493</u>	<u>948,061,533</u>	<u>4,717,960</u>
<b>Liabilities:</b>			
Current liabilities	\$ 226,630,508	179,738,040	46,892,468
Long-term liabilities	1,131,362,264	1,067,901,593	63,460,671
Total liabilities	<u>1,357,992,772</u>	<u>1,247,639,633</u>	<u>110,353,139</u>
<b>Net assets (deficit):</b>			
Invested in capital assets, net of related debt	6,219,248	11,348,653	(5,129,405)
Restricted	89,109,792	178,890,877	(89,781,085)
Unrestricted	(500,542,319)	(489,817,630)	(10,724,689)
Total net deficit	<u>(405,213,279)</u>	<u>(299,578,100)</u>	<u>(105,635,179)</u>
Total liabilities and net deficit	<u>\$ 952,779,493</u>	<u>948,061,533</u>	<u>4,717,960</u>

At October 31, 2006, the Authority maintained total assets of approximately \$952.8 million, approximately \$4.7 million greater than total assets at October 31, 2005.

Cash and rents and other receivables held at October 31, 2006 decreased approximately \$6.2 million, primarily due to certain rental income deposited in the bond resolution restricted asset accounts at October 31, 2006 as

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opposed to being held in unrestricted accounts at October 31, 2005, as well as a decrease in accrued rental revenues.

The Authority's bond resolution assets are predominantly related to funds and accounts established in accordance with the bond resolutions and total approximately \$378.3 million, approximately \$36.9 million higher than the investment value of assets held at October 31, 2005 of \$341.3 million. At October 31, 2006, assets held under the 2003 Revenue Bond Resolutions include funds held for the payment of debt service, interest expense, construction of site improvements, and payment to the City of New York under the Settlement Agreement (see notes 9 and 14). Funds held under the 2003 Bond Resolutions used for the purpose of paying debt service decreased approximately \$10.0 million. Additionally, approximately \$19.7 million of funds held for the construction of project infrastructure were expended. The decreases to assets held under the various bond resolutions held at October 31, 2006 over the previous year ended October 31, 2005 were offset by increased interest earnings and lease payments received of approximately \$67.0 million.

At October 31, 2006, the Authority's investment in project assets, net of accumulated depreciation was approximately \$385 million. 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 9.5 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, public schools, and approximately 9,000 residential units. Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space and 1,321 residential units. All are under construction with the exception of the last residential project, Site 23/24, comprising 591 units in the north neighborhood. Construction is expected to begin in 2007 (see note 7). The Authority's project assets include land, site improvements, and a residential building (Site 22) constructed by the Authority. The balances at October 31, 2006 and 2005 are as follows:

	October 31		Increase (decrease)
	2006	2005	
Land	\$ 83,015,653	83,015,653	—
Site improvements	320,540,142	300,833,526	19,706,616
Residential building and condominiums	43,080,997	41,741,252	1,339,745
	<u>446,636,792</u>	<u>425,590,431</u>	<u>21,046,361</u>
Less accumulated depreciation	<u>(61,620,310)</u>	<u>(57,163,024)</u>	<u>(4,457,286)</u>
Total Battery Park City project assets	<u>\$ 385,016,482</u>	<u>368,427,407</u>	<u>16,589,075</u>

For the fiscal year ended October 31, 2006, the increase to Project assets over fiscal year 2005 is a result of net expenditures of approximately \$19.7 million in site improvements, principally for new parks in the North and South neighborhoods, security infrastructure, and the restoration of the esplanade adjacent to the North Cove (see note 3). Additionally, condo units owned by the Authority in Sites 1 and 16/17 were added to project assets at a cost of approximately \$1.3 million for the fiscal year ended October 31, 2006.

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Other current and noncurrent assets at October 31, 2006 and 2005 are as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2006</b>	<b>2005</b>	
Residential lease required funds	\$ 7,231,822	6,912,954	318,868
Corporate-designated and escrowed funds	124,722,327	166,400,365	(41,678,038)
Deferred costs:			
Bond issuance costs, net	40,784,197	42,155,484	(1,371,287)
Costs of leases, net	2,611,841	2,510,132	101,709
Total deferred costs, net	43,396,038	44,665,616	(1,269,578)
Other assets	7,677,934	7,590,942	86,992
Total other current and noncurrent assets	\$ 183,028,121	225,569,877	(42,541,756)

Other current and noncurrent assets decreased approximately \$42.5 million from \$225.6 million at October 31, 2005 to \$183 million at October 31, 2006. Residential lease required funds increased marginally by approximately \$319 thousand primarily from interest earnings. Overall, corporate-designated and escrowed funds decreased approximately \$41.7 million from the prior fiscal year. The decrease is attributable to a \$93.4 million disbursement to the City for the Housing Trust Funds. The payment to the City was offset by a \$43.8 million transfer of 2003 Revenue Bond Funds to "joint purpose funds" (see note 14) in January 2006, which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2005, a \$3.5 million lease payment received from Goldman Sachs, which is to be held in escrow for the benefit of the local community board to help fund a library in the base of Site 16/17, approximately \$160 thousand of deposits made to corporate reserves designated for the Battery Park City Parks Conservancy (see note 18(h)), and interest earnings on all funds held. Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Legal costs incurred on recent leases resulted in a net increase to cost of leases of approximately \$102 thousand. Other assets increased by a net \$87 thousand primarily due to purchases of management information systems related equipment and software with an offsetting reduction of the asset value due to annual depreciation.

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Total liabilities at October 31, 2006 and 2005 are as follows:

	<b>October 31,</b>		<b>Increase (decrease)</b>
	<b>2006</b>	<b>2005</b>	
Current liabilities:			
Accrued interest on bonds	\$ 17,722,584	17,499,109	223,475
Accounts payable and other liabilities	33,492,872	31,256,142	2,236,730
Due to the City of New York	111,395,000	107,200,000	4,195,000
Due to the NYC Housing Trust Fund	36,651,610	—	36,651,610
Revenue received in advance	27,368,442	23,782,789	3,585,653
Total current liabilities	<u>226,630,508</u>	<u>179,738,040</u>	<u>46,892,468</u>
Noncurrent liabilities:			
Revenue received in advance	100,208,937	37,350,894	62,858,043
Bonds outstanding:			
2003 Revenue Bonds	1,064,776,522	1,065,950,260	(1,173,738)
Unamortized loss on extinguishment	<u>(33,623,195)</u>	<u>(35,399,561)</u>	<u>1,776,366</u>
Total noncurrent liabilities	<u>1,131,362,264</u>	<u>1,067,901,593</u>	<u>63,460,671</u>
Total liabilities	<u>\$ 1,357,992,772</u>	<u>1,247,639,633</u>	<u>110,353,139</u>

The Authority's total liabilities increased approximately \$110.4 million from \$1.248 billion at October 31, 2005 to \$1.358 billion at October 31, 2006.

Current liabilities largely comprise amounts due to the City and the NYC Housing Trust Fund, accrued interest on bonds, revenue received in advance, and accounts payable and accrued expenses. The \$46.9 million increase in current liabilities is primarily due to the provision for amounts due to the City of \$107.2 million for the fiscal year ended October 31, 2005, which was paid in June 2006, and \$111.4 million accrued at October 31, 2006. Additionally, a \$36.7 million accrual was recorded at October 31, 2006 representing the balance due to the NYC Housing Trust Fund (see note 13(g)). Accrued interest payable on bonds, approximately \$17.7 million at October 31, 2006 is \$223 thousand higher than October 31, 2005 primarily due to higher interest rates paid on variable debt outstanding.

Noncurrent liabilities relating to bonds outstanding mainly comprise the Authority's long-term debt. On October 16, 2003, the Authority issued \$1.068 billion for the 2003 Revenue Bonds. Principal payments on these debt obligations begin November 2008. There was a decrease of approximately \$1.2 million on the balance of the 2003 Revenue Bonds outstanding due to amortization of the net bond premium. The loss related to the extinguishment of debt is being amortized ratably over the maturity period of the retired debt resulting in an increase to net noncurrent liabilities of approximately \$1.8 million at October 31, 2006.

In addition, as of October 31, 2006, total revenues received in advance increased by \$66.5 million over October 31, 2005, primarily due to "upfront payments" received from Site 16/17, \$60 million, and Site 3, \$11.5 million, (see note 7).



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The net deficits at October 31, 2006 and 2005 were \$405.2 million and \$299.6 million, respectively. Investment in capital assets, net of related debt was \$6.2 million at October 31, 2006. 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 Authority's \$89.1 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Authority. These assets are generally restricted for debt service and capital projects. The resulting balance is classified as an unrestricted deficit totaling approximately \$500.5 million.

The overall change in total net assets from October 31, 2005 represents a negative change in the deficit position of approximately \$105.6 million from \$299.6 million at October 31, 2005 to \$405.2 million at October 31, 2006.

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

Below is a summary of the Authority's revenues, expenses, and changes in net deficit for the fiscal years ended October 31, 2006 and 2005:

	<b>October 31</b>	<b>October 31</b>	<b>Increase</b>
	<b>2006</b>	<b>2005</b>	<b>(decrease)</b>
Operating revenues:			
Revenues from ground leases:			
Base rent	\$ 54,458,404	45,667,458	8,790,946
Supplemental rent	670,875	709,003	(38,128)
Payments in lieu of real estate taxes	130,727,937	126,182,058	4,545,879
Civic facilities payments and others	6,560,860	7,089,909	(529,049)
Total operating revenues	192,418,076	179,648,428	12,769,648
Operating expenses:			
Wages and related benefits	6,412,543	6,061,597	350,946
Other operating and administrative expenses	23,540,617	20,586,154	2,954,463
Depreciation and amortization	7,948,784	8,770,144	(821,360)
Total operating expenses	37,901,944	35,417,895	2,484,049
Operating income	154,516,132	144,230,533	10,285,599
Nonoperating revenues (expenses):			
Investment and other income	23,884,018	17,044,551	6,839,467
Interest expense, net	(42,625,329)	(44,236,016)	1,610,687
IRS arbitrage rebate	(15,000)	(291,920)	276,920
Provision for transfer to the City of New York	(111,395,000)	(107,200,000)	(4,195,000)
Provision for transfer to the New York City Housing Trust Fund	(130,000,000)	—	(130,000,000)
Total nonoperating expenses, net	(260,151,311)	(134,683,385)	(125,467,926)
Change in net assets	(105,635,179)	9,547,148	(115,182,327)
Net deficit beginning of year	(299,578,100)	(309,125,248)	9,547,148
Net deficit end of year	\$ (405,213,279)	(299,578,100)	(105,635,179)

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A summary of revenues and expenses for the fiscal years ended October 31, 2006 and 2005 is as follows:

**Operating Revenues** – Overall revenues for the fiscal years ended October 31, 2006 and 2005 totaled \$192.4 million and \$179.6 million, respectively, and consist primarily of base (land) rent and PILOT from long-term leaseholds. Base rent revenue of \$54.5 million for the fiscal year ended October 31, 2006 increased \$8.8 million from October 31, 2005 due to an adjustment to the recognition period of an “upfront payment”, new leased parcels, specifically Site 26 and Site 16/17, and an increase in scheduled leased payments. In addition, PILOT revenues (which account for approximately 68% of the Authority's operating revenues) increased \$4.5 million, as a result of additions in assessments, an increase in tax rates by the City, and new leased parcels.

**Operating Expenses** – Operating expenses totaled approximately \$37.9 million for the fiscal year ended October 31, 2006, approximately \$2.5 million higher than the fiscal year ended October 31, 2005. The expenses include: wages and related benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, planning/design, and promotional expenditures; and depreciation and amortization. Wages and related benefits increased \$351 thousand. Other operating and administrative expenses increased approximately \$2.9 million, primarily due to an increase in spending for planning and design costs, lease renewals, legal costs, and amounts funded for the benefit of the Battery Park City Parks Conservancy offset by decreases in site security costs and community relations costs. The decrease in amortization and depreciation expense is primarily attributable to adjustments to bond issuance amortization expense and the defeasance of the Housing Revenue Bonds, both charged during the period ended October 31, 2005.

**Nonoperating Revenues (Expenses)** – Total net nonoperating items increased \$125.5 million from \$134.7 million for the fiscal year ended October 31, 2005 to \$260.2 million representing the fiscal year ended October 31, 2006. The increase was primarily due to a \$130 million charge representing a transfer of funds to the NYC Housing Trust Fund. In addition, a provision for a transfer to the City of \$111.4 million in excess revenues was charged for the fiscal year ended October 31, 2006, an increase of approximately \$4.2 million from the fiscal year ended October 31, 2005. Investment and other income increased \$6.8 million over the prior fiscal year and is primarily due to higher market interest rates available on investments. Net interest expense decreased \$1.6 million for the fiscal year ended October 31, 2006, and is primarily due to higher interest rates paid on the variable-rate 2003 Revenue Bonds offset by higher interest rates earned on the six interest rate exchange agreements entered into in 2003.

**Change in Net Assets** – The total net deficits at October 31, 2006 and 2005 were \$405.2 million and \$299.6 million, respectively.

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**Comparison of 2005 to 2004**

***Financial Highlights***

- On April 27, 2005, the outstanding mortgage notes receivable from the Housing Company (see note 6), including interest due on the loans through May 1, 2005, were prepaid. The mortgage notes due totaled \$89,017,694 in principal and \$590,957 in interest, as follows:

<b>Year of mortgage origination</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1982	\$ 7,282,472	81,169	7,363,641
1984	9,666,476	84,582	9,751,058
1993	72,068,746	425,206	72,493,952
	\$ 89,017,694	590,957	89,608,651

The proceeds from the prepayment on the mortgage notes totaling approximately \$89.6 million, along with \$800,952 of Housing Company funds and other funds held (approximately \$5.8 million) in the Housing Bond Resolutions, were used to defease all of the Housing Revenue Bonds (HRBs) outstanding, which were originally issued by the Authority to finance the loans (see note 13). On April 27, 2005, funds sufficient to pay the \$91,355,000 HRBs outstanding (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) and interest on those bonds to June 1, 2005 were transferred to the respective bond trustees. On April 27, 2005, the mortgage notes were satisfied and are no longer assets of the Authority, and the HRBs were defeased and are no longer liabilities. On June 1, 2005, all outstanding HRBs were redeemed by the bond trustees. Other remaining funds held under the HRB resolutions totaling approximately \$8.5 million were transferred and held by the Authority for corporate purposes. In addition, the Housing Company was required to pay \$12 million to entities designated by the Authority and the City of New York (the City) in accordance with the December 20, 2001 agreement between the Housing Company, the Authority, and the City (see note 6). The Authority is holding such payment in escrow pending agreement between the Authority and the City on the disposition of these funds.

- A provision for the transfer to the City of \$107.2 million in excess revenues was charged for the fiscal year ended October 31, 2005. Generally, the Authority's change in net assets will decrease with increases in the amount of excess revenues to be provided to the City, which will have an adverse effect on the Authority's net asset position.
- At October 31, 2005, the Authority retains approximately \$90.6 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide (including approximately \$43.8 million retained at fiscal year ended October 31, 2005). In addition, at October 31, 2005, the Authority holds approximately \$72.1 million in the Project Cost account to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 9).

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- During the year ended October 31, 2005, there was an increase of approximately \$5.9 million or 5% in Payment in Lieu of Taxes (PILOT) revenue (which accounts for approximately 70% of the Authority's operating revenues) and primarily results from additions in assessments and tax rates by the City, which represents a net increase of \$2.3 million, and a \$3.6 million PILOT payment accrued on a new residential ground lease for the development of Site 16/17.

**Summary Schedule of Net Assets**

The schedule of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets are the difference between total assets and total liabilities. A summarized comparison of the Authority's assets, liabilities, and net deficit at October 31, 2005 and 2004 is as follows:

	<b>October 31</b>		<b>Increase</b>
	<u>2005</u>	<u>2004</u>	<b>(decrease)</b>
<b>Assets:</b>			
Cash, investments and rents and other receivables	\$ 12,729,702	5,493,570	7,236,132
Bond resolution restricted assets (current and noncurrent)	341,334,547	410,933,225	(69,598,678)
Battery Park City project assets, net	368,427,407	350,005,899	18,421,508
Other current and noncurrent assets	225,569,877	258,939,368	(33,369,491)
Total assets	<u>\$ 948,061,533</u>	<u>1,025,372,062</u>	<u>(77,310,529)</u>
<b>Liabilities:</b>			
Current liabilities	\$ 179,738,040	174,109,388	5,628,652
Long-term liabilities	1,067,901,593	1,160,387,922	(92,486,329)
Total liabilities	<u>1,247,639,633</u>	<u>1,334,497,310</u>	<u>(86,857,677)</u>
<b>Net assets (deficit):</b>			
Invested in capital assets, net of related debt	11,348,653	13,283,283	(1,934,630)
Restricted	178,890,877	175,864,462	3,026,415
Unrestricted	(489,817,630)	(498,272,993)	8,455,363
Total net deficit	<u>(299,578,100)</u>	<u>(309,125,248)</u>	<u>9,547,148</u>
Total liabilities and net deficit	<u>\$ 948,061,533</u>	<u>1,025,372,062</u>	<u>(77,310,529)</u>

At October 31, 2005, the Authority maintained total assets of approximately \$948.1 million, approximately \$77.3 million less than total assets at October 31, 2004. The Authority's bond resolution assets are predominantly related to funds and accounts established in accordance with the bond resolutions and total approximately \$341.3 million, approximately \$69.6 million lower than the investment value of assets held at October 31, 2004 of \$410.9 million. At October 31, 2005, assets held under the 2003 Revenue Bond Resolutions include a debt service reserve and funds held for payment of debt service, bond issuance costs, interest expense, construction of site improvements, and excess revenues available to be applied by the Authority for any lawful corporate purpose (see note 9). Funds held under the 2003 Revenue Bond Resolutions were used for the designated purposes of

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paying debt service of approximately \$41.4 million and project infrastructure costs of approximately \$17.7 million. In addition, in April 2005 all funds held under the Housing Bonds Resolutions totaling approximately \$15 million at October 31, 2004 were transferred to the respective bond trustees to defease the outstanding HRBs, and the remaining balance of approximately \$8.5 million was transferred and retained by the Authority for corporate-designated purposes (see notes 6 and 13). The decrease to assets held under the various bond resolutions were offset by interest earnings and deposits of approximately \$4.5 million as required by the bond resolutions.

At October 31, 2005, the Authority's investment in project assets, net of accumulated depreciation was approximately \$368.4 million. The Authority's Project assets include land, site improvements, and a residential building (Site 22) constructed by the Authority. The balances at October 31, 2005 and 2004 are as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2005</b>	<b>2004</b>	
Land	\$ 83,015,653	83,015,653	—
Site improvements	300,833,526	278,250,147	22,583,379
Residential building	41,741,252	41,741,252	—
	<u>425,590,431</u>	<u>403,007,052</u>	<u>22,583,379</u>
Less accumulated depreciation	<u>(57,163,024)</u>	<u>(53,001,153)</u>	<u>(4,161,871)</u>
Total Battery Park City project assets	<u>\$ 368,427,407</u>	<u>350,005,899</u>	<u>18,421,508</u>

For the fiscal year ended October 31, 2005, the increase to the project assets over fiscal year 2004 is a result of expenditures of approximately \$22.6 million in site improvements, principally for new parks in the North and South neighborhoods and the restoration of the plaza adjacent to the North Cove (see note 3).

Other current and noncurrent assets at October 31, 2005 and 2004 are as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2005</b>	<b>2004</b>	
Receivables from the Housing Company	\$ —	87,883,399	(87,883,399)
Residential lease required funds	6,912,954	10,599,776	(3,686,822)
Corporate-designated and escrowed funds	166,400,365	105,021,575	61,378,790
Deferred costs:			
Bond issuance costs, net	42,155,484	44,541,653	(2,386,169)
Costs of leases, net	2,510,132	2,324,301	185,831
Total deferred costs, net	<u>44,665,616</u>	<u>46,865,954</u>	<u>(2,200,338)</u>
Other assets	<u>7,590,942</u>	<u>8,568,664</u>	<u>(977,722)</u>
Total other current and noncurrent assets	<u>\$ 225,569,877</u>	<u>258,939,368</u>	<u>(33,369,491)</u>

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Other current and noncurrent assets decreased approximately \$33.4 million from \$258.9 million at October 31, 2004 to \$225.6 million at October 31, 2005 and primarily relate to the prepayment of the 1982, 1984, and 1993 mortgage note receivables on April 27, 2005, which accounted for an \$87.9 million decrease. As a consequence of the mortgage note prepayments, residential lease-required funds decreased \$3.7 million due to a refund of related housing company funds held in escrow by the Authority at October 31, 2004. Corporate-designated assets increased approximately \$61.4 million primarily due to a transfer of \$40.2 million in "joint purpose funds", which relate to excess revenues from the fiscal year ended October 31, 2004. Additionally, corporate-designated and escrowed funds increased due to a transfer of \$5.6 million from the HRB resolution accounts and a \$12 million payment by the Housing Company, which is held in escrow by the Authority for the benefit of the City. Amortization of deferred costs decreased bond issuance costs by \$2.4 million while legal costs incurred on recent leases resulted in a net increase to cost of leases of approximately \$186 thousand. Other assets decreased by \$978 thousand primarily due to depreciation of computers, leasehold improvements, and office equipment.

Total liabilities at October 31, 2005 and 2004 are as follows:

	<b>October 31,</b>		<b>Increase</b>
	<b>2005</b>	<b>2004</b>	<b>(decrease)</b>
<b>Current liabilities:</b>			
Accrued interest on bonds	\$ 17,499,109	19,771,335	(2,272,226)
Accounts payable and other liabilities	31,256,142	29,112,023	2,144,119
Due to the City of New York	107,200,000	100,965,880	6,234,120
Revenue received in advance	23,782,789	21,725,150	2,057,639
Housing Revenue Bonds	—	2,535,000	(2,535,000)
Total current liabilities	<u>179,738,040</u>	<u>174,109,388</u>	<u>5,628,652</u>
<b>Noncurrent liabilities:</b>			
Revenue received in advance	37,350,894	40,428,855	(3,077,961)
<b>Bonds outstanding:</b>			
Housing Revenue Bonds	—	89,870,000	(89,870,000)
2003 Revenue Bonds	1,065,950,260	1,067,264,995	(1,314,735)
Unamortized loss on extinguishment	(35,399,561)	(37,175,928)	1,776,367
Total noncurrent liabilities	<u>1,067,901,593</u>	<u>1,160,387,922</u>	<u>(92,486,329)</u>
Total liabilities	<u>\$ 1,247,639,633</u>	<u>1,334,497,310</u>	<u>(86,857,677)</u>

The Authority's total liabilities decreased approximately \$86.9 million, from a total of \$1.334 billion at October 31, 2004 to \$1.248 billion at October 31, 2005.

Current liabilities largely comprise amounts due to the City, the current portion of bonds outstanding, accrued interest on bonds, revenue received in advance, and accounts payable and accrued expenses. An increase of approximately \$5.6 million in current liabilities is due to the provision for amounts due to the City of \$101 million for the fiscal year ended October 31, 2004, which was paid in June 2005, and \$107.2 million accrued at October 31, 2005. Additionally, accrued interest payable on bonds, approximately \$17.5 million at

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October 31, 2005 is \$2.3 million less than the October 31, 2004 balance of \$19.8 million, due to the defeasance of the HRBs on April 27, 2005. Accounts payable and other liabilities increased \$2.1 million from \$29.1 million at October 31, 2004 to \$31.3 million at October 31, 2005.

Noncurrent and current liabilities related to bonds outstanding mainly comprise the Authority's long- and short-term debt. The primary reason for the \$92.4 million decrease in total bonds outstanding from \$1.12 billion at October 31, 2004 to \$1.03 billion at October 31, 2005 was a \$1.05 million principal payment on the HRBs in December 2004 and the defeasance of the remaining HRBs outstanding, \$91,355,000 (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) on April 27, 2005. On October 16, 2003, the Authority issued \$1.068 billion for the 2003 Revenue Bonds. There was a decrease of approximately \$1.3 million on the balance of the 2003 Revenue Bonds outstanding due to amortization of the net bond premium. The loss on extinguishment of debt is being amortized ratably over the maturity period relating to the outstanding debt. The reduction of the loss results in a net increase to liabilities of approximately \$1.8 million at October 31, 2006.

In addition, at October 31, 2005, total revenues received in advance decreased by \$1 million over October 31, 2004, primarily due to change in the revenue recognition period related to the Site 22 "upfront payment".

The net deficits at October 31, 2005 and 2004 were \$299.6 million and \$309.1 million, respectively. Investment in capital assets, net of related debt was \$11.3 million at October 31, 2005. 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 Authority's \$178.9 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Authority. These assets are generally restricted for debt service and capital projects. The resulting balance is classified as an unrestricted deficit totaling approximately \$489.8 million.

The overall change in total net assets from October 31, 2004 is an increase of approximately \$9.5 million, and indicates that the total asset position of the Authority has increased during the fiscal year ended October 31, 2005.



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***Summary Schedule of Revenues, Expenses, and Changes in Net Assets (Deficit)***

Below is a summary of the Authority's revenues, expenses, and changes in net deficit for the fiscal years ended October 31, 2005 and 2004:

	October 31		Increase (decrease)
	2005	2004	
Operating revenues:			
Revenues from ground leases:			
Base rent	\$ 45,667,458	43,063,667	2,603,791
Supplemental rent	709,003	581,545	127,458
Payments in lieu of real estate taxes	126,182,058	120,267,912	5,914,146
Civic facilities payments and others	7,089,909	6,663,808	426,101
Total operating revenues	<u>179,648,428</u>	<u>170,576,932</u>	<u>9,071,496</u>
Operating expenses:			
Wages and related benefits	6,061,597	5,705,404	356,193
Other operating and administrative expenses	20,586,154	24,999,597	(4,413,443)
Depreciation and amortization	8,770,144	9,975,338	(1,205,194)
Total operating expenses	<u>35,417,895</u>	<u>40,680,339</u>	<u>(5,262,444)</u>
Operating income	<u>144,230,533</u>	<u>129,896,593</u>	<u>14,333,940</u>
Nonoperating revenues (expenses):			
Investment and other income	17,044,551	21,296,131	(4,251,580)
Interest expense, net	(44,236,016)	(46,549,162)	2,313,146
IRS arbitrage rebate	(291,920)	(3,137)	(288,783)
Provision for transfer to the City of New York	<u>(107,200,000)</u>	<u>(100,965,880)</u>	<u>(6,234,120)</u>
Total nonoperating expenses, net	<u>(134,683,385)</u>	<u>(126,222,048)</u>	<u>(8,461,337)</u>
Change in net assets	9,547,148	3,674,545	5,872,603
Net deficit beginning of year	<u>(309,125,248)</u>	<u>(312,799,793)</u>	<u>3,674,545</u>
Net deficit end of year	<u>\$ (299,578,100)</u>	<u>(309,125,248)</u>	<u>9,547,148</u>

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A summary of revenues and expenses for the fiscal years ended October 31, 2005 and 2004 is as follows:

**Operating Revenues** – Overall revenues for the fiscal years ended October 31, 2005 and 2004 totaled \$179.6 million and \$170.6 million, respectively, and consist primarily of base (land) rent and real estate taxes (PILOT) from long-term leaseholds. Base rent lease payments for the fiscal year ended October 31, 2005, \$45.7 million, increased \$2.6 million from fiscal year 2004 due to a \$421 thousand accrual for Site 26, a new commercial building (see note 5), a \$917 thousand accrual for Site 16/17, a new residential building, and additional base rent recognized in fiscal 2005 over fiscal 2004 for Site 22, approximately \$1.3 million. In addition, PILOT revenues (which account for approximately 70% of the Authority's operating revenues) increased \$5.9 million, as a result of additions in assessments, an increase in tax rates by the City, and accrued lease payments associated with the new residential building, approximately \$3.6 million.

**Operating Expenses** – Operating expenses totaled approximately \$35.4 million for the fiscal year ended October 31, 2005, approximately \$5.3 million less than the fiscal year ended October 31, 2004. The expenses include: wages and related benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, planning/design, and promotional expenditures; and depreciation and amortization. Wages and related benefits increased \$356 thousand. Other operating and administrative expenses decreased approximately \$4.4 million, primarily due to a decrease in spending for planning and design costs, security, legal costs, insurance costs, and amounts funded for the benefit of the Battery Park City Parks Conservancy. Adjustments to depreciation and amortization expenses resulted in a net decrease of \$1.2 million over the prior fiscal year ended October 31, 2004. .

**Nonoperating Revenues (Expenses)** – Total net nonoperating expenses of \$134.7 million for the fiscal year ended October 31, 2005 were approximately \$8.5 million higher than the net nonoperating expenses of \$126.2 million for the fiscal year ended October 31, 2004. A provision for a transfer to the City of \$107.2 million in excess revenues was charged for the fiscal year ended October 31, 2005, an increase of approximately \$6.2 million from the fiscal year ended October 31, 2004. Investment and other income decreased over the prior fiscal year ended October 31, 2004 primarily due to significantly higher interest earnings on the mortgage notes receivable outstanding during the fiscal year ended October 31, 2004. The mortgage notes were prepaid in April 2005. Net interest expense related to outstanding bonds decreased by \$2.3 million for the fiscal year ended October 31, 2005, primarily due to a decrease in interest payments on the Housing Revenue Bonds due to the debt defeasance in April 2005 and significantly higher interest rates earned on the six interest rate exchange agreements entered into in 2003. These decreasing factors were offset by higher interest rates paid in the 2003 variable-rate revenue bonds during fiscal 2005.

**Change in Net Assets** – The total net deficits at October 31, 2005 and 2004 were \$299.6 million and \$309.1 million, respectively.

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**Other Information**

***Debt Administration*** – At October 31, 2006, the Authority was responsible for debt service on \$1.066 billion of the 2003 Revenue Bonds issued in October 2003. Bond proceeds were used to provide for the payments of all principal and interest on the 1993 Revenue Refunding Bonds, the Junior Revenue Bonds, Series 1996A, Series 2000, and the 1993 HNYC Senior Bonds. As a result thereof, such bonds were defeased and are no longer a liability of the Authority. The 2003 Revenue Bonds include: \$433 million (including premium) of senior lien obligations (2003 Senior A Bonds) rated Aaa, AAA, and AAA by Moody's Investor Service, Inc. (Moody's), Fitch, and Standard & Poor's, respectively; and \$635 million of junior lien debt obligations (the 2003 Series B Bonds and the 2003 Series C Bonds), which are insured and, therefore, are also rated Aaa, AAA, and AAA by Moody's, Fitch, and Standard & Poor's, respectively, and also carry underlying ratings of Aa3, AA, and AA, respectively. As of April 27, 2005, the HRBs outstanding, approximately \$91.3 million, were defeased and are no longer liabilities of the Authority.

***Requests for Information*** – This financial report is designed to provide a general overview of the Authority'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 website is: [www.batteryparkcity.org](http://www.batteryparkcity.org).

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## Balance Sheets

October 31, 2006 and 2005

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents (note 3)	\$ 175,273	3,107
Investments (note 3)	—	4,791,024
Corporate-designated and escrowed funds (note 3)	36,651,610	—
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of \$183,290 in 2006 and \$152,931 in 2005) (note 15)	6,295,185	7,935,571
Bond Resolution Funds:		
2003 Revenue Bonds (notes 3, 9, 11, 12, and 13)	160,960,060	158,150,523
Total current assets	<u>204,082,128</u>	<u>170,880,225</u>
Noncurrent assets:		
Restricted assets:		
Bond Resolution Funds:		
2003 Revenue Bonds (notes 3, 9, 11, 12, and 13)	217,304,372	183,184,024
Residential lease required funds (note 3)	7,231,822	6,912,954
Corporate-designated and escrowed funds (note 3)	88,070,717	166,400,365
Deferred costs (note 3):		
Bond issuance costs, less accumulated amortization of \$9,978,851 in 2006 and \$8,540,376 in 2005	40,784,197	42,155,484
Costs of leases, less accumulated amortization of \$725,454 in 2006 and \$682,711 in 2005	2,611,841	2,510,132
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, and 4)	385,016,482	368,427,407
Other assets	7,677,934	7,590,942
Total noncurrent assets	<u>748,697,365</u>	<u>777,181,308</u>
Total assets	<u>\$ 952,779,493</u>	<u>948,061,533</u>

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Balance Sheets

October 31, 2006 and 2005

<b>Liabilities and Net Deficit</b>	<b>2006</b>	<b>2005</b>
	<u>                    </u>	<u>                    </u>
Current liabilities:		
Accrued interest on bonds	\$ 17,722,584	17,499,109
Accounts payable and other liabilities (note 16)	33,492,872	31,256,142
Due to the City of New York (note 14)	111,395,000	107,200,000
Due to New York City Housing Trust Fund	36,651,610	—
Revenue received in advance	27,368,442	23,782,789
	<u>226,630,508</u>	<u>179,738,040</u>
Noncurrent liabilities:		
Revenue received in advance (note 3)	100,208,937	37,350,894
Bonds outstanding (notes 10, 11, 12, and 13):		
2003 Revenue Bonds, less accumulated amortization of \$3,569,450 in 2006 and \$2,395,712 in 2005	1,064,776,522	1,065,950,260
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	<u>(33,623,195)</u>	<u>(35,399,561)</u>
Total noncurrent liabilities	<u>1,131,362,264</u>	<u>1,067,901,593</u>
Total liabilities	<u>1,357,992,772</u>	<u>1,247,639,633</u>
Net assets (deficit) (note 3):		
Invested in capital assets, net of related debt	6,219,248	11,348,653
Restricted:		
Debt service	83,882,870	96,024,556
Under bond resolutions and other agreements	5,226,922	82,866,321
Unrestricted deficit	<u>(500,542,319)</u>	<u>(489,817,630)</u>
Total net deficit	<u>(405,213,279)</u>	<u>(299,578,100)</u>
Total liabilities and net deficit	<u>\$ 952,779,493</u>	<u>948,061,533</u>

See accompanying notes to financial statements.

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(A Component Unit of the State of New York)

## Statements of Revenues, Expenses, and Changes in Net Deficit

Years ended October 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Revenues from ground leases (notes 5, 6, 7, and 8):		
Base rent	\$ 54,458,404	45,667,458
Supplemental rent	670,875	709,003
Payments in lieu of real estate taxes	130,727,937	126,182,058
Civic facilities payments and other	6,560,860	7,089,909
Total operating revenues	<u>192,418,076</u>	<u>179,648,428</u>
Operating expenses:		
Wages and related benefits	6,412,543	6,061,597
Other operating and administrative expenses (note 18(e))	23,540,617	20,586,154
Depreciation of project assets	4,476,039	4,161,871
Other depreciation and amortization	3,472,745	4,608,273
Total operating expenses	<u>37,901,944</u>	<u>35,417,895</u>
Operating income	<u>154,516,132</u>	<u>144,230,533</u>
Nonoperating revenues (expenses):		
Investment income on funds relating to:		
Housing Revenue Bonds	—	282,901
2003 Revenue Bonds	4,519,226	10,782,434
Corporate-designated and escrowed funds and other	4,910,883	5,485,715
Net increase (decrease) in the fair value of investments	14,453,909	(3,061,949)
Interest income on receivable from Housing Company	—	3,555,450
Interest expense relating to:		
Housing Revenue Bonds	—	(3,658,142)
2003 Swap Agreement – net interest expense	(977,047)	(5,981,837)
2003 Revenue Bonds	(39,871,916)	(32,819,671)
Loss from extinguishment	(1,776,366)	(1,776,366)
IRS arbitrage rebate expense	(15,000)	(291,920)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 14)	(111,395,000)	(107,200,000)
Provision for transfer to the New York City Housing Trust Fund	(130,000,000)	—
Total nonoperating expenses	<u>(260,151,311)</u>	<u>(134,683,385)</u>
Change in net assets	(105,635,179)	9,547,148
Net deficit, beginning of year	<u>(299,578,100)</u>	<u>(309,125,248)</u>
Net deficit, end of year	<u>\$ (405,213,279)</u>	<u>(299,578,100)</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended October 31, 2006 and 2005

	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 259,075,514	171,882,348
Miscellaneous receipts	506,683	14,954
Total cash receipts from operating activities	259,582,197	171,897,302
Cash payments for:		
Salaries and benefits	(6,023,952)	(6,197,575)
Services and supplies	(24,567,324)	(22,306,308)
Total cash payments from operating activities	(30,591,276)	(28,503,883)
Net cash provided by operating activities	228,990,921	143,393,419
Cash flows from noncapital financing activities:		
Goldman Sachs deposit held for Battery Park City Library	3,500,000	—
Escrow deposit held for City of New York	—	12,000,000
Payment to the New York City Housing Trust Fund	(93,348,390)	—
Payment to New York City	(107,200,000)	(100,965,880)
Net cash used in noncapital financing activities	(197,048,390)	(88,965,880)
Cash flows from capital and related financing activities:		
Principal payments on Housing Revenue Bonds	—	(1,050,000)
Interest paid on Housing Revenue Bonds	—	(3,151,325)
Closeout of Housing Revenue Bonds-related funds	—	(9,838,677)
Development costs – site improvements and construction	(22,593,079)	(22,583,379)
Fixed asset costs	(2,146,790)	—
Cash reimbursements for capital expenditures	—	1,019,542
Auction fees paid for variable debt	(1,608,785)	(1,602,708)
Payment made on the 2003 Swap Agreement	(13,808,000)	(13,808,000)
Swap interest payments received	12,504,493	7,373,067
Interest paid on 2003 Junior Revenue Bonds	(19,288,688)	(12,383,520)
Interest paid on 2003 Senior Revenue Bonds	(19,855,799)	(19,855,799)
Net cash used in capital and related financing activities	(66,796,648)	(75,880,799)
Cash flows from investing activities:		
Mortgage principal repayments from Housing Company	—	1,091,928
Interest received on receivable from Housing Company	—	3,570,128
Interest received on investment securities	9,744,035	11,800,106
Redemption and sale of investment securities	515,276,799	278,489,247
Purchase of investment securities	(489,994,551)	(274,345,329)
Net cash provided by investing activities	35,026,283	20,606,080
Increase (decrease) in cash and cash equivalents	172,166	(847,180)
Cash and cash equivalents, beginning of year	3,107	850,287
Cash and cash equivalents, end of year	\$ 175,273	3,107
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 154,516,132	144,230,533
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,948,784	8,770,144
Bad debt expense	30,358	—
Changes in operating assets and liabilities:		
Decrease (increase) in rents and other receivables	2,698,782	(5,518,418)
Increase in deferred sublease costs	(211,640)	—
Decrease (increase) in other assets	61,277	(1,080,202)
Decrease in accounts payable and other liabilities	(1,250,526)	(1,988,316)
Increase (decrease) in revenue received in advance	65,197,754	(1,020,322)
Net cash provided by operating activities	\$ 228,990,921	143,393,419
Supplemental noncash transactions disclosure (note 13):		
Payment by Housing Company for satisfaction of the Receivable Under FHA	\$ —	88,807,698
Direct transfer by Housing Company to bond trustee for satisfaction of the Housing Revenue Bonds	—	(81,516,323)

See accompanying notes to financial statements.

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Notes to Basic Financial Statements

October 31, 2006 and 2005

**(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. For State financial reporting purposes, the Authority is a component unit of the State and is included in its comprehensive annual financial report. The Authority has been doing business as the Hugh L. Carey Battery Park City Authority since 1999.

The Act sets forth the purposes of the Authority, including: the improvement of the Battery Park City 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 a payment to the City (see note 10).

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 Battery Park City 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 9.5 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, public schools, and approximately 9,000 residential units (see notes 5, 6, and 7). Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space and 1,321 residential units. At October 31, 2006, two residential projects and one commercial site are under construction and the last residential project available for construction is expected to begin in 2007. In addition to undeveloped parcels, 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 ground leases, all expiring in 2069. All development sites on the Project have been formerly designated for development, with the exception of a parcel in the south neighborhood, which is planned to be a museum.

**(3) Summary of Significant Accounting Policies**

**(a) Financial Reporting**

The Authority follows U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).



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The Authority'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 Governmental 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 not conflict with GASB pronouncements. The Authority has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

**(b) Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual results could differ from those estimates.

**(c) Project Assets**

Costs incurred by the Authority in developing the Project as of October 31, 2006 and 2005 are capitalized as project assets and classified as follows:

	<b>Balance at October 31, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at October 31, 2006</b>
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	300,833,526	20,637,165	930,549	320,540,142
Residential building and condominiums	41,741,252	1,339,745	—	43,080,997
Total project assets	<u>425,590,431</u>	<u>21,976,910</u>	<u>930,549</u>	<u>446,636,792</u>
Less accumulated depreciation:				
Site improvements	51,325,353	3,588,762	18,753	54,895,362
Residential building and condominiums	5,837,671	887,277	—	6,724,948
Total accumulated depreciation	<u>57,163,024</u>	<u>4,476,039</u>	<u>18,753</u>	<u>61,620,310</u>
Net project assets	<u>\$ 368,427,407</u>	<u>17,500,871</u>	<u>911,796</u>	<u>385,016,482</u>

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	<b>Balance at October 31, 2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at October 31, 2005</b>
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	278,250,147	22,583,379	—	300,833,526
Residential building	41,741,252	—	—	41,741,252
Total project assets	<u>403,007,052</u>	<u>22,583,379</u>	<u>—</u>	<u>425,590,431</u>
Less accumulated depreciation:				
Site improvements	47,998,307	3,327,046	—	51,325,353
Residential building	5,002,846	834,825	—	5,837,671
Total accumulated depreciation	<u>53,001,153</u>	<u>4,161,871</u>	<u>—</u>	<u>57,163,024</u>
Net project assets	<u>\$ 350,005,899</u>	<u>18,421,508</u>	<u>—</u>	<u>368,427,407</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, net of investment income, 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.

**(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 payments received in advance of the period to which they apply are deferred and recognized as income during such period. In accordance with the lease terms of certain residential buildings, the Authority received upfront lease payment of approximately \$42 million from Site 22, \$60 million from Site 16/17, and \$11.5 million from Site 3. The Authority is recognizing revenue for these payments on a straight-line basis over the first 25-year lease period. 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 no earlier than June 2007. Base rent revenues are being recognized on a pro rata basis over the 63-year lease term. Amounts not recognized are reported as revenue received in advance in current and noncurrent liabilities. Given the nature of the Authority's operations, revenue from ground leases and related fees and agreements is considered operating revenue. All other revenues are considered nonoperating.

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(e) **Investments and Deposits**

The Authority 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 Authority'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 backed by the full faith and credit of the U.S. government, or municipal issuances of a credit quality no lower than 'A' grade, are held by the Authority's financial institutions in the Authority's name. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks.

Total investments and deposits held by the Authority at October 31, 2006 and 2005 included within the balance sheet accounts: investments, corporate-designated and escrowed funds, bond resolution funds (see note 9), and residential lease required funds are as follows:

	2006			2005		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	\$ 52,308,205	54,702,279	4.13	\$ 317,161,371	318,393,974	0.75
Commercial paper	72,836,787	73,058,851	0.07	—	—	—
Federal agency securities	316,051,602	317,846,504	0.65	68,430,407	67,334,012	2.31
Mortgage-backed securities	54,005,122	53,165,180	2.94	79,345,648	79,345,648	2.32
Municipal bonds	6,830,000	6,856,178	0.02	51,689,288	51,689,288	0.04
Total investments	502,031,716	505,628,992	1.17	516,626,714	516,762,922	1.12
Cash and cash equivalents	4,589,589	4,589,589		2,675,968	2,675,968	
Total investments and deposits	\$ 506,621,305	510,218,581		\$ 519,302,682	519,438,890	

(a) Portfolio weighted average effective duration.

The Authority'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 Authority operations.

The Authority'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 their obligations receive the highest credit rating (Fannie Mae, Freddie Mac); (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 October 31, 2006 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).

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Interest rate risk is the probability of loss on investments from future changes in interest rates that 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 Authority's portfolio is measured according to effective duration.

Corporate-designated and escrowed funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund (see note 9), project contingency reserves, restoration reserves, insurance reserves, and arbitrage reserves. 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.

**(f) *Net Assets***

The Authority's net assets are 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 net assets, consisting of net assets restricted for specific purposes by law or parties external to the Authority; and unrestricted net assets, consisting of net assets that are not classified as investment 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 issuance costs are amortized by the straight-line method over the remaining period to maturity of the bonds. Unamortized bond issuance costs relating to refunded debt are accounted for as part of the carrying amount of such debt. Unreimbursed costs incurred by the Authority in entering into leases have been deferred and are being amortized by the straight-line method over the terms of the leases.

**(h) *Statements of Cash Flows***

For the purpose of the statements of cash flows, the Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Authority has elected to treat cash equivalents held under the various bond resolutions as investments.

**(i) *Reclassifications***

Certain fiscal 2005 amounts were reclassified to conform with the fiscal 2006 presentation.

**(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

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to the then-existing leases, for a nominal consideration after: (a) all notes, bonds (other than bonds issued to finance mortgage loans for the Gateway Plaza project), 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 October 31, 2006, 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 principally of approximately 7,500,000 (6,000,000 net rentable) 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 October 31, 2006, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$1.12 billion over the remaining lease terms in the following annual amounts: (i) base rent of \$17,000,000 per annum from 2007 through 2069 and (ii) additional base rent of \$5,561,220 per annum payable by the BFP-affiliated lessees (2000 to 2014), and an additional \$3,106,674 per annum payable by American Express (2000 to 2009) (see note 8). In addition, the leases provide for rent relating to 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 rental 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.

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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 New York City Economic Development Corporation, the City, and the New York State Urban Development Corporation (currently doing business as the Empire State Development Corporation) for the development of a new 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 \$1,000,000 for the office portion for the first 7 years of occupancy, \$1,500,000 for years 8 through 13, and \$2,000,000 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 of approximately 600,000 square feet to the north of the World Financial Center on Site 25. The Site 25 ground lease provides for an abatement program for the hotel and cinema complex. In addition, in 2000, a lease was signed for the development of a 298-room hotel and 114 residential condominium units at the southern end of Battery Park City. The hotel was opened in early 2002 and the lease provides for the payment of full PILOT.

In August 2005, a lease was signed by Goldman Sachs for the development of approximately 1.8 million square feet of trading and office headquarter space on Site 26, north of the World Financial Center. The Site 26 ground lease provides for a base rent payment of approximately \$161 million no earlier than June 2007, receipt of which is subject to certain escrow conditions. PILOT payments under the lease are made subject to incentive reduction exemptions to Goldman Sachs, contingent on Goldman Sachs' employment and headquarter commitments to the City. Approximately \$952,000 thousand was recorded as PILOT revenues and \$2.5 million as base rent for the fiscal year ended October 31, 2006 based on the lease terms. In addition, in December 2005, Goldman Sachs made a \$3.5 million lease payment to the Authority, which is to be held in escrow for the benefit of the local community board to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. As of October 31, 2006, no funds were disbursed to the NYC Public Library by the Authority.

**(6) Gateway Project**

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). The lease, as amended, expires in 2040 and may be extended at the option of the tenant through 2069.

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Permanent financing was provided by the Authority from the proceeds of Housing Revenue Bonds (HRBs) (see note 13). The notes were collateralized by separate nonrecourse mortgages (coordinate in lien) from the Housing Company and Marina Towers Associates, L.P. (Marina Towers), a limited partnership, of which the Housing Company is general partner. Repayment of loans under the mortgage notes was insured by the Federal Housing Administration (FHA). On April 27, 2005, the total mortgage loans receivable including interest due on the loans from the Housing Company through May 1, 2005 were prepaid. The mortgage loans due totaled \$89,017,694 in principal and \$590,956 in interest and were as follows:

<b>Year of mortgage origination</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1982	\$ 7,282,472	81,169	7,363,641
1984	9,666,476	84,582	9,751,058
1993	72,068,746	425,206	72,493,952
	<b>\$ 89,017,694</b>	<b>590,957</b>	<b>89,608,651</b>

The proceeds from the prepayment on the mortgage loans totaling approximately \$89.6 million along with \$800,952 of Housing Company funds and other funds held (approximately \$5.8 million) in the Housing Bond Resolutions were used to defease all of the HRBs outstanding, which were originally issued by the Authority to finance the loans (see note 13). On April 27, 2005, funds sufficient to pay the \$91,355,000 HRBs outstanding (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) and interest on those bonds to June 1, 2005 were transferred to the respective bond trustees and all outstanding HRBs were redeemed on June 1, 2005. As of April 27, 2005, the Housing Company mortgage loans were satisfied and are no longer assets and the HRBs were defeased and are no longer liabilities of the Authority. By agreement dated as of December 20, 2001 among the Authority, the Housing Company, Marina Towers, and the City, a refinancing plan was approved that provided for payoff of the existing loans owed to the Authority, the dissolution of the Housing Company, and assignment of the lease to Marina Towers, amendment of the lease with restructuring of tax equivalency payments, and a lump-sum payment of \$12,000,000 to an entity or entities to be designated jointly by the Authority and the City. The refinancing transaction was completed on April 27, 2005. The lump-sum payment is being held by the Authority in escrow pending joint designation of payees by the Authority and the City. The HRBs are retired and the Authority is no longer a mortgagee with respect to the Gateway Project. The loans provided by a private lender to effectuate the refinancing are also insured by the FHA. In addition, the Authority returned approximately \$4.2 million of Housing Company funds held in escrow.

Under the terms of the lease, as amended, the tenant has agreed to pay: (i) a net annual 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 prerefinancing payments in lieu of real estate taxes to an equivalency payment equal to full taxes starting on February 16, 2020; and (iii) amounts for the operation and maintenance of the civic facilities.

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**(7) Residential and Other Development**

In addition to the Gateway Project, the Authority entered into leases in the residential area south of Liberty Street (the South Residential Neighborhood) pursuant to which developers constructed 17 buildings consisting of approximately 3,605 condominium and rental units, including 114 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. In the residential area north of the World Financial Center (the North Residential Neighborhood), 8 buildings consisting of approximately 2,247 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. 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.

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 the South Residential Neighborhood leases executed prior to 1987 phased out during the fiscal year ended 1997, abatements for the leases executed after 1986 for that neighborhood ended in fiscal year 2003 and will end in 2020 for recent developments, and abatements for the North Residential 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 the PILOT payments are less than the minimum specified in each lease (see note 8).

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.

On December 30, 2005, a ground lease for the development of Site 16/17 in Battery Park City between the Authority and Site 16/17 Development LLC became effective and the Authority was paid \$60 million as a nonrefundable "upfront payment," as well as \$5.4 million for base rent and PILOT for the period January 1, 2005 through December 29, 2005. Approximately \$8.8 million of revenues including \$4.3 million of PILOT, \$3.1 million of base rent and \$1.4 million of other rents were recorded for the fiscal year ended October 31, 2006. Regular payments of base rent, PILOT, and other elements of rent, including



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a share of the proceeds of the sales of condominium units, will be received by the Authority over the remaining lease term.

On August 17, 2006, a ground lease between the Authority and Battery Place Green, LLC for the development of a residential building on Site 3 in the south neighborhood of Battery Park City became effective. The Authority was paid \$4 million as an upfront lease payment in February 2006, and an additional \$7.5 million in October 2006 as the next installment of a total of \$42.5 million in upfront payments. In accordance with the lease terms, the remaining upfront payments due to the Authority will be paid within seven months after issuance of the first certificate of occupancy for the building. Regular payments of base rent, PILOT, and other elements of rent will be received by the Authority over the remaining lease term.

On October 31, 2006, ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, were signed by the Authority and MP Freedom LLC and MP Liberty LLC, and placed into escrow (both MP entities are controlled by The Milstein Organization). The ground lease tenants have until July 31, 2007 to secure financing for construction of the projects, or a total of \$2,787,885, secured by a bank letter of credit, will be paid to the Authority as damages and the leases will not take effect. Under the leases, the tenants are required to make upfront lease payments totaling \$56.5 million on commencement date and are also required to construct at their own expense the core and shell of a community center and ball fields maintenance facilities, which will be owned by the Authority. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sales of condominium units, will be received by the Authority over the remaining lease term.

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**(8) 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 7)) to be received under the ground leases during each of the Authority's five fiscal years ending from October 31, 2007 through 2011 and thereafter are as follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Thereafter</u>	<u>Total</u>
				(In thousands)			
Commercial development:							
Base rent	\$ 27,645	27,659	27,155	24,743	25,098	1,295,511	1,427,811
Residential developments:							
POD III Project base rent	305	305	305	305	305	8,756	10,281 (a)
S. Res. neighborhood:							
Base rent	11,924	12,034	12,534	12,855	13,861	1,297,381	1,360,589
Other minimum payments	13,101	13,154	12,620	8,242	7,373	2,049	56,539
Subtotal S. Res. neighborhood	<u>25,025</u>	<u>25,188</u>	<u>25,154</u>	<u>21,097</u>	<u>21,234</u>	<u>1,299,430</u>	<u>1,417,128</u>
N. Res. neighborhood:							
Base rent	3,192	3,397	3,466	3,546	3,654	382,283	399,538
Other minimum payments	3,982	4,036	4,092	4,148	4,203	51,170	71,631
Subtotal N. Res. neighborhood	<u>7,174</u>	<u>7,433</u>	<u>7,558</u>	<u>7,694</u>	<u>7,857</u>	<u>433,453</u>	<u>471,169</u>
Total	<u>\$ 60,149</u>	<u>60,585</u>	<u>60,172</u>	<u>53,839</u>	<u>54,494</u>	<u>3,037,150</u>	<u>3,326,389</u>

(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 ground leases. The minimum payments will be recorded as revenues (supplemental rents) only to the extent that minimum amounts exceed PILOT revenues due. In addition, future minimum lease revenues in connection with leases for which the buildings have not been built by developers and are not fully occupied are not included. Revenues to be paid by the Museum are on a percentage basis and other like contingent payments are also not included.

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**(9) Bond Resolution Funds: 2003 Revenue Bonds**

The balances in the funds and accounts established in accordance with the Authority's bond resolutions and held by trustees are as follows at October 31, 2006:

	<b>2003 Revenue Bonds</b>			<b>Total 2003 Bonds</b>
	<b>2003 Revenue Bonds</b>	<b>2003 Senior Bonds</b>	<b>2003 Junior Bonds</b>	
Debt Service Funds	\$ —	11,522,265	20,617,652	32,139,917
Reserve Funds	69,465,535	—	—	69,465,535
Project costs	51,873,890	—	—	51,873,890
Project Operating Fund	7,833,842	—	—	7,833,842
Residual Fund	3,316,927	—	—	3,316,927
Pledged Revenue Fund	213,634,321	—	—	213,634,321
	<u>\$ 346,124,515</u>	<u>11,522,265</u>	<u>20,617,652</u>	<u>378,264,432</u>

The balances in the funds and accounts established in accordance with the Authority's bond resolutions and held by trustees were as follows at October 31, 2005:

	<b>2003 Revenue Bonds</b>			<b>Total 2003 Bonds</b>
	<b>2003 Revenue Bonds</b>	<b>2003 Senior Bonds</b>	<b>2003 Junior Bonds</b>	
Debt Service Funds	\$ —	22,445,808	19,701,181	42,146,989
Reserve Funds	71,376,678	—	—	71,376,678
Project costs	72,062,394	—	—	72,062,394
Project Operating Fund	8,309,725	—	—	8,309,725
Residual Fund	1,583,916	—	—	1,583,916
Costs of Issuance Fund	68,827	—	—	68,827
Pledged Revenue Fund	145,786,018	—	—	145,786,018
	<u>\$ 299,187,558</u>	<u>22,445,808</u>	<u>19,701,181</u>	<u>341,334,547</u>

As of October 16, 2003, in conjunction with the issuance of the 2003 Revenue Bonds, all bond funds and accounts held under the 1993, 1996, and 2000 refunded revenue bonds were eliminated and all assets held in the accounts were transferred to other accounts held under the 2003 Revenue Bond Resolution, defeasance escrows, or other corporate asset accounts (see note 11).

Investments of amounts in funds and accounts established under the various 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 (see note 18(e)).

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Amounts in the project costs fund and cost of issuance fund (2003 Revenue Bonds) may be used to pay for costs of certain park, street, and other infrastructure improvements, other capital expenditures, and various bond issuance costs.

Amounts in the debt service funds and dedicated funds established under the 2003 Revenue Bonds and in the revenue accounts established under the Housing Revenue Bond Resolutions are used to pay debt service on the respective bonds.

Debt service reserve and dedicated revenue funds established under the various bond resolutions, to the extent not utilized to fund any future debt service deficiencies, will be available to retire bonds issued thereunder in the last year of bond maturity.

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.

On October 16, 2003, amounts in the 2003 Pledged Revenue Fund (PRF) were pledged and assigned for the payment of the debt service on the 2003 Revenue Bonds and on certain additional indebtedness, which may be issued by the Authority and secured by the Authority's revenue. In addition, the Authority established an unpledged Special Fund restricted by the 1993 Master Revenue Resolution with an initial deposit of \$45 million. In connection with the issuance of the 2003 Revenue Bonds, the Special Fund was retained by the Authority and classified with other corporate assets, which are no longer restricted by any bond resolutions (see note 12).

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

**(10) 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; and (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. Such authorized amounts exclude bonds and notes issued to refund outstanding bonds and notes (see note 11).

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The Act, as amended, also authorizes the Authority to pledge and assign excess revenues, as defined, to 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 and notes for the purpose of refunding outstanding indebtedness of HNYC that is secured by revenues of the Authority. In October 2003, a portion of the proceeds of the 2003 Revenue Bonds was applied to the payment in full of all outstanding HNYC indebtedness for which the Authority had pledged its revenue (see note 12).

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 October 31, 2006, no bonds have been issued for this purpose.

The Act, as amended, authorizes 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 12).

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

**(11) Refunded Revenue Bonds**

On October 16, 2003, all revenue bonds outstanding at that time (including the 1993 Revenue Refunding Bonds, Series 1993A; Junior Revenue Bonds, Series 1996A; and Junior Revenue Bonds, Series 2000) were refunded using bond proceeds from the 2003 Revenue Bonds. In addition, bond proceeds were used to provide for the payment of principal and interest and defeasance of all outstanding 1993 HNYC Senior Bonds (see note 12). Accordingly, the liability for all defeased (refunded) revenue bonds is not included in the Authority's financial statements and no longer represents a debt obligation of the Authority.

**1993 Revenue Bonds** – In December 1993, the Authority issued \$462,065,000 of Revenue Refunding Bonds, Series 1993A (the 1993 Series A Bonds) to advance refund \$175,995,000 of outstanding 1986 Special Obligation Revenue Bonds and \$222,660,000 of outstanding 1990 Revenue Bonds. The Authority also issued \$140,020,000 of Junior Revenue Refunding Bonds, Series 1993B (the 1993 Series B Bonds) to currently refund \$162,900,000 of outstanding 1972 Series A Bonds. In September 1987, HNYC issued \$209,995,000 of Revenue Bonds (the HNYC Bonds), which were principally secured by certain pledged

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revenue of the Authority. In December 1993, in conjunction with the Authority's refunding of its bonds, HNYC issued \$258,690,000 of Senior Revenue Refunding Bonds (the 1993 HNYC Senior Bonds) for the purpose of refunding the HNYC Bonds. In November 2000, the final special mandatory payment was made and the 1993 Junior B Bonds were retired and are no longer outstanding. On October 16, 2003, all remaining 1993 Series A Bonds, totaling \$439,465,000, and the 1993 HNYC Senior Bonds, totaling \$250,390,000, were retired and are no longer outstanding.

**1996 Revenue Bonds** – In 1996, the Authority issued \$79,420,000 Junior Revenue Bonds, Series 1996A for the purposes of financing the construction of a residential building and costs for certain infrastructure and other capital expenditures. On October 16, 2003, all remaining \$74,385,000 of the Series 1996A Bonds outstanding were retired and are no longer outstanding.

**2000 Revenue Bonds** – On March 7, 2000, the Authority issued \$55,725,000 of Junior Revenue Bonds, Series 2000 to finance costs and certain infrastructure and other capital expenditures in Battery Park City. The 2000 Junior Revenue Bonds were issued as auction rate securities. On October 16, 2003, all 2000 Junior Revenue Bonds outstanding totaling \$53,075,000 were retired and are no longer outstanding.

**(12) 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 \$564,891,773 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) was issued to 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 was issued to advance refund \$74,385,000 of outstanding Junior Revenue Bonds, Series 1996A.
- \$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 10).

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 refund bonds, were used to purchase U.S. government securities to retire the bonds. In addition, approximately \$90.4 million of bond proceeds was made available to the Authority to facilitate development and maintenance of the Project.

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The refundings resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by approximately \$39 million. In December 1993, the GASB issued Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. For current and advance refundings resulting in defeasance of debt reported by entities such as the Authority, GASB No. 23 required, effective for financial statements issued for periods beginning after June 15, 1994, that the difference between the reacquisition price and the net carrying amount of the refunded debt be deferred and amortized as a component of interest expense, in a systematic and rational manner, over the remaining life of the old debt or the life of the new debt, whichever is shorter. The difference between the reacquisition price and the net carrying amount of the refunded debt was reflected on the Authority's balance sheet with a pro rata charge to interest expense for the year ended October 31, 2006.

At October 31, 2006, the 2003 Series A Bonds consist of the following serial bonds:

<u>Maturity dates</u>	<u>Coupon rates</u>	<u>Principal amounts</u>	<u>Interest</u>
2007		\$ —	19,855,799
2008	2.10%	14,570,000	19,855,799
2009	2.38 – 5.00	12,980,000	19,549,829
2010	2.63 – 5.00	13,645,000	19,085,929
2011	3.00 – 5.00	14,375,000	18,556,439
2012 – 2016	3.40 – 5.50	86,165,000	81,315,501
2017 – 2021	3.90 – 5.25	115,550,000	56,139,460
2022 – 2026	4.40 – 5.25	149,065,000	23,093,564
		<u>\$ 406,350,000</u>	<u>257,452,321</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 using the straight-line method over the life of the 2003 Series A Bonds. At October 31, 2006 and 2005, the unamortized net bond premium was approximately \$23.4 million and \$24.6 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 through the redemption date.

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At October 31, 2006, principal and interest payments due on the 2003 Series B Junior Bonds and the 2003 Series C Junior Bonds are as follows:

Fiscal year	Junior B		Junior C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ —	7,455,125	—	13,269,271	—	20,724,396
2008	—	7,455,125	3,375,000	13,157,642	3,375,000	20,612,767
2009	—	7,455,125	5,450,000	12,977,347	5,450,000	20,432,472
2010	—	7,455,125	5,450,000	12,797,090	5,450,000	20,252,215
2011	—	7,455,125	5,450,000	12,616,795	5,450,000	20,071,920
2012 – 2016	—	37,275,625	27,250,000	60,379,897	27,250,000	97,655,522
2017 – 2021	—	37,275,625	28,075,000	55,833,328	28,075,000	93,108,953
2022 – 2026	—	37,275,625	33,150,000	50,724,392	33,150,000	88,000,017
2027 – 2031	—	37,275,625	225,300,000	26,623,328	225,300,000	63,898,953
2032 – 2036	110,900,000	30,293,236	66,500,000	1,125,036	177,400,000	31,418,272
2037 – 2039	124,100,000	4,040,033	—	—	124,100,000	4,040,033
Total	\$ 235,000,000	220,711,394	400,000,000	259,504,126	635,000,000	480,215,520

The 2003 Junior Revenue Bonds were issued as auction rate securities 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 B Junior 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 closest to October 31, 2006, which were 3.05%, 3.15%, and 3.18% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 3.3%, 3.3%, 3.2%, 3.25%, and 3.3% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.



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On October 2, 2003, the Authority executed six interest rate exchange agreements (the Swaps) with three counterparties. The Swaps were executed in conjunction with the Authority's issuance of \$400 million of its 2003 Series C Junior Revenue Bonds (Auction Rate Securities). The total notional amount of the Swaps was \$400,000,000. 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 swap agreements, the Authority owes interest to the swap counterparties that is calculated at a fixed rate of 3.452% and paid semiannually. In return, on a monthly basis, the counterparties pay the Authority floating-rate interest equal to 65% of the 1-month London Interbank Offered Rate (LIBOR).

Year	Notional amount	Interest rate swaps		
		Payments	Receipts	Net Payments
2007	\$ —	(13,808,000)	13,832,000	24,000
2008	3,375,000	(13,691,495)	13,715,293	23,798
2009	5,450,000	(13,503,361)	13,526,832	23,471
2010	5,450,000	(13,315,227)	13,338,371	23,144
2011	5,450,000	(13,127,093)	13,149,910	22,817
2012 – 2016	27,250,000	(62,813,455)	62,922,633	109,178
2017 – 2021	28,075,000	(58,068,681)	58,169,612	100,931
2022 – 2026	33,150,000	(52,737,067)	52,828,731	91,664
2027 – 2031	225,300,000	(27,598,740)	27,646,710	47,970
2032 – 2033	66,500,000	(1,160,735)	1,162,753	2,018
	<u>\$ 400,000,000</u>	<u>(269,823,854)</u>	<u>270,292,841</u>	<u>468,987</u>

The above table includes payments based on the Authority's swap payment obligation fixed at 3.452% of bond principal outstanding while receipts are based on 65% of the 1-month LIBOR of 5.320% on October 31, 2006, which the counterparties are obligated to pay the Authority on a monthly basis.

The Swaps had a negative fair market value of approximately \$2 million at October 31, 2006. 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 Authority is potentially exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "AA" 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 receipt under the Swaps.

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Debt service on the Senior Bonds (including the 2003 A Senior Bonds) and on the Junior Bonds (including the 2003 B Junior Bonds and the 2003 C Junior 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 Pledged Revenue Fund established under the 2003 General Bond Resolution. The Pledged Revenue Fund, including income and earnings on investments thereof, has been pledged and assigned to a trustee for the benefit of the owners of Senior Bonds or 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 Senior Bonds, senior swap payments, and senior reimbursement obligations from amounts in the Pledged Revenue Fund and the Reserve Fund are senior to the rights to payment of Junior Bonds, junior swap payments, and junior reimbursement obligations from such amounts. As of each November 1, amounts in the Pledged Revenue Fund 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 9).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement (see note 14), to provide for the custody of the Special Fund (see note 9). In order to assure the ability of the Authority to develop and operate the Project, the Authority established a new special fund to the credit of which shall be deposited approximately \$46 million. The Special Fund was funded from the proceeds of the former special fund created pursuant to the 1993 Master Revenue Resolution upon the dissolution of such existing special fund in connection with the 2003 refunding of outstanding Authority bonds and the issuance of the additional 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 Fund nor the moneys 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 moneys on deposit from time to time in the Special Fund shall be treated as revenues.

**(13) Housing Revenue Bonds**

The HRBs, which were issued to provide financing for the apartment complex referred to in note 6, were special as opposed to general obligations of the Authority and were payable solely from revenue and assets pledged for their payment. The HRBs were collateralized by a pledge of: (i) payments of interest and principal on the respective mortgage notes from the Housing Company, interest earned on accounts established under the respective HRB Resolutions, and any payments made to the Authority in connection with a claim under FHA mortgage insurance; (ii) the respective mortgage notes and related mortgages from the Housing Company; and (iii) the amounts in accounts established under the respective HRB Resolutions.

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The prepayment of the Housing Company's mortgage loans along with other funds held in the Housing Bond Resolutions were used to defease all the HRBs outstanding, which were originally issued by the Authority to finance or refinance the loans. On April 27, 2005, the \$91,355,000 HRBs outstanding (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) were defeased and are no longer liabilities of the Authority. On June 1, 2005, all HRBs were redeemed and are no longer outstanding.

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

The Authority entered into a settlement agreement (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 Revenue Bonds, and on any bonds issued to finance the HNYC housing program (see notes 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 to the extent not required for the housing program described in the next paragraph and spent in such manner and for such purposes as the Authority and the City shall jointly determine.

The Authority entered into agreements with the City, which supplemented the Settlement Agreement, to provide, among other things, for the Authority to transfer \$600 million, which was to be used by the City to fund the preservation, rehabilitation, and construction of affordable housing. The Authority satisfied that commitment with a final payment in June 2004.

The \$107.2 million provided for the transfer to the City at fiscal year ended October 31, 2005 was paid in June 2006. A provision in the amount of \$111.4 million was charged to operations for the fiscal year ended October 31, 2006, which includes bridge franchise fees and the share of PILOT after payment of operating expenses and debt service as described above. The Authority retained approximately \$103.4 million of fiscal year 2006 excess revenues to be spent in a manner and for such purposes as the Authority and the City shall jointly decide.

In January 2000, December 2001, and September 2003, the Authority entered into agreements with the City, which supplemented the Settlement Agreement, to provide, among other things, that the Authority may issue additional bonds or other debt obligations in amounts sufficient to provide an aggregate of approximately \$164 million of net proceeds to fund the construction of civic facilities infrastructure and other capital expenditures. In January 2007, the City and the Authority signed an agreement to increase the amount of bonds or other debt obligations the Authority may issue for infrastructure and other capital expenditures by an additional \$74.6 million.

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**(15) Rents and Other Receivables**

Rents and other receivables comprise the following at October 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Interest on swap agreements	1,191,511	865,051
Miscellaneous receivables	774,722	66,398
Rents receivable	1,154,042	1,306,868
Accrued rental income	3,358,200	5,850,185
Total receivables	6,478,475	8,088,502
Less allowance for doubtful accounts	(183,290)	(152,931)
Net receivables	\$ 6,295,185	7,935,571

**(16) Accounts Payable and Other Liabilities**

Accounts payable and other liabilities at October 31, 2006 and 2005 comprise the following:

	<b>2006</b>	<b>2005</b>
Amounts due to vendors	\$ 4,494,942	6,330,532
Contract retention costs	2,762,662	2,663,103
Due to developers	27,500	80,000
Accrued payroll and benefits	575,119	550,441
Security and other deposits	24,473,931	19,729,858
Accrued legal settlement	1,158,718	1,902,208
Total	\$ 33,492,872	31,256,142

**(17) Retirement Costs**

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 (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller 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 System, 110 State Street, Albany, NY 12236.

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The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than ten years of service and, therefore, contribute 3% of their salary. 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 accumulation fund.

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

2006	\$	498,294
2005		509,748
2004		208,984
2003		<u>191,186</u>
Total	\$	<u><u>1,408,212</u></u>

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

**(18) Commitments and Other Matters**

- (a) The Authority has entered into construction and other related contracts, having unexpended balances aggregating approximately \$28.4 million as of October 31, 2006.
- (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 approximately \$2.6 million and \$2.0 million for the fiscal years ended October 31, 2006 and 2005, respectively.
- (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 \$38,000,000. Pursuant to a written agreement made in December 2005, the insurance moneys were paid into a fund jointly controlled by the Authority and the management team of the World Financial Center (Brookfield Financial Properties, American Express Company, and Merrill Lynch & Co.) for the purpose of ensuring access into Battery Park City from the connection that will be built from the World Trade Center site and for the purpose of restoring the South Bridge. These funds are not recorded as assets of the Authority in the accompanying balance sheets.
- (d) The Minority Developer Assistance Corporation (MDAC) was incorporated as a New York not-for-profit corporation with the Authority as its sole member. MDAC was created for the purpose of implementing and administrating a scholarship and internship program. The Authority's members served as directors of MDAC. MDAC was dissolved as a corporation on August 1, 2005.

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- (e) On October 21, 2003, the Act was amended regarding investments to allow any monies of the Authority, including the proceeds of bonds or notes, not required for immediate use, at the discretion of the Authority to be invested in obligations of the State, U.S. Government and its agencies, or in any other obligations in which the Comptroller is authorized to invest pursuant to Section 98 of the State Finance Law.
- (f) On January 13, 2006, the Governor signed into law the Public Authorities Accountability Act of 2005 (PAAA), which increases the size of the Authority's board from three to seven members, each of whom are to be appointed, as was previously the case, by the Governor with the advice and consent of the State Senate, and sets forth certain additional requirements with respect to responsibilities of the members. In addition, the PAAA, among other things, requires additional periodic reports to be prepared and distributed by the Authority with respect to specified operational and financial matters, and sets forth new requirements with respect to the disposition of property. As of June 30, 2006, all new members were appointed and serving.
- (g) On July 31, 2006, the members of the Authority approved the payment of \$130 million of joint purpose funds to the NYC Housing Trust Fund per a proposal by the Governor, the Mayor, and City Comptroller. The funds will be used for affordable housing programs by the City's Department of Housing Preservation and Development (HPD). Progress reports will be delivered by HPD annually, and all investments and expenditures of the funds will be subject to audit by the City Comptroller. The HPD programs are projected to use the \$130 million to provide an additional 4,300 of affordable housing units in the City by June 30, 2009. Approximately \$93.4 million held in the joint purpose fund was transferred to HPD in September 2006 and the \$36.6 million balance is expected to be transferred to HPD in February 2007 in accordance with the agreement.

In addition, on July 31, 2006, the members of the Authority approved a proposal by the Governor to pay up to \$40 million dollars of joint purpose funds to the Port Authority for the construction of a planned pedestrian concourse running under Route 9A. The concourse would connect the Winter Garden, (on the west at the edge of Battery Park City) and the World Trade Center site on the east. The proposal remains subject to approval by the Mayor and City Comptroller.

- (h) The 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 modification of the bylaws, 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 or repair the parks and open spaces, which are in and around Battery Park City's residential area. 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. During the fiscal year ended October 31, 2006, the Authority paid the Conservancy approximately \$6.5 million for services, which are included in the Authority's operating expenses.

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

Notes to Basic Financial Statements

October 31, 2006 and 2005

**(19) Litigation**

- (a) Several claims have been asserted against the Authority arising out of design and construction work performed on the Authority's combined school/residential facility located on Site 22 in Battery Park City (the Site 22 Project). The general contractor, the plumbing contractor, and a subcontractor that performed work on the Site 22 Project have asserted a total of approximately \$12.1 million in claims. The school portion of the Site 22 Project was constructed by the Authority pursuant to an agreement with the City, the New York City Educational Construction Fund, and the Board of Education of the City of New York.

Pursuant to the terms of that agreement, the City agreed to indemnify the Authority inter alia for any liability, loss, cost, damage, or claim arising from the design or construction of the school portion of the Site 22 Project. The amount of Site 22 Project claims allocable to the school portion has not yet been determined, and the amount of the Authority's liability for claims relating to the Site 22 Project, if any, is not predictable at present.

- (b) The Authority sustained significant damage to portions of its real estate and civic facilities as a consequence of the September 11th attack and its aftermath. In particular, the North Bridge was destroyed and the South Bridge severely damaged. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the North and South Bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, insurance moneys were paid into a fund jointly controlled by the Authority, Brookfield Financial Properties (BFP), American Express, and Merrill Lynch for the purpose of improving pedestrian access to the World Financial Center in Battery Park City and for the purpose of restoring the South Bridge. BFP, American Express, and Merrill Lynch have signed releases accepting the settlement amount from the insurer in full and final payment of all claims against the Authority arising from the attack with regard to the North and South Bridges and certain other civic facilities.
- (c) A number of claims have been asserted against the Authority and others in State and Federal courts by cleaning contractor employees who worked in and around the World Trade Center site after the September 11<sup>th</sup> attack (such employees and their representatives hereinafter referred to as Plaintiffs), some of whom were undertaking clean-up activities for ground lessees of the Authority and 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. Most of these claims have been dismissed or discontinued with prejudice with respect to the Authority on account of procedural defects. The remaining claims are currently pending in Federal court. The Authority's ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, BFP has declined to assume the defense of these claims due to the vagueness of the pleadings; certain claims may also be tendered to other ground lessees of the Authority. Furthermore, certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not cover such claims. Additional claims stemming from the clean-up efforts following the attack may be asserted against the Authority in the future.