



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

Basic Financial Statements

October 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

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

October 31, 2007 and 2006

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KPMG LLP  
345 Park Avenue  
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## 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, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in note 17, the Authority adopted Government Accounting Standard Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of November 1, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2008 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 3 through 20 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

January 25, 2008

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Management's Discussion and Analysis

October 31, 2007 and 2006

(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 the fiscal years ended October 31, 2007 and 2006. 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 2007 to 2006

#### *Financial Highlights*

- On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$1.3 million of base rent, \$787 thousand of Payment in Lieu of Taxes (PILOT), and \$899 thousand in interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2007. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds from the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which will be owned by the Authority as condominium units. Construction of the buildings is expected to begin in spring 2008.
- Effective for the fiscal year beginning November 1, 2006, the Authority adopted Government Accounting Standard Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and financial statement presentation of other postemployment benefits (OPEB), including plan expenditures and related liabilities (assets), and note disclosures. At October 31, 2007 in accordance with GASB Statement No. 45, the Authority's accrued liability representing postretirement medical benefits for all eligible current and retired employees is \$13.9 million. Additionally, the Authority's Board of Directors designated \$14.2 million from existing corporate reserves for the exclusive purpose of paying future OPEB obligations (see note 17).
- The fiscal year ended October 31, 2007 yielded a total of \$206.1 million in operating revenues, representing an increase of approximately \$13.6 million or 7.1% over the prior fiscal year. Total operating expenses increased \$15.3 million from \$37.9 million at October 31, 2006 to \$53.2 million at October 31, 2007.
- A liability was recorded for the fiscal year ended October 31, 2007 for the transfer to the City of New York (the City) of \$83.1 million in excess revenues (see note 13). Generally, the Authority's net assets decrease with increases in the amount of excess revenues provided to the City, which has an adverse effect on the Authority's net asset position.

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- At October 31, 2007, the Authority retained approximately \$113 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide (see note 13). Approximately \$36.7 million was 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, 2007, the Authority held approximately \$39.2 million in the Project Costs Fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 9).

#### Summary Schedule of Net Assets

The summary 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, 2007 and 2006 is as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2007</b>	<b>2006</b>	
<b>Assets:</b>			
Cash, investments, and rents and other receivables	\$ 16,164,954	6,470,458	9,694,496
Bond resolution restricted assets (current and noncurrent)	295,576,071	378,264,432	(82,688,361)
Battery Park City project assets, net	394,607,108	385,016,482	9,590,626
Other current and noncurrent assets	247,567,663	183,028,121	64,539,542
Total assets	<u>\$ 953,915,796</u>	<u>952,779,493</u>	<u>1,136,303</u>
<b>Liabilities:</b>			
Current liabilities	\$ 136,003,168	226,630,508	(90,627,340)
Long-term liabilities	1,170,782,358	1,131,362,264	39,420,094
Total liabilities	<u>1,306,785,526</u>	<u>1,357,992,772</u>	<u>(51,207,246)</u>
<b>Net assets (deficit):</b>			
Invested in capital assets, net of related debt	1,439,539	6,219,248	(4,779,709)
Restricted	278,760,241	205,099,273	73,660,968
Unrestricted	(633,069,510)	(616,531,800)	(16,537,710)
Total net deficit	<u>(352,869,730)</u>	<u>(405,213,279)</u>	<u>52,343,549</u>
Total liabilities and net deficit	<u>\$ 953,915,796</u>	<u>952,779,493</u>	<u>1,136,303</u>

At October 31, 2007, the Authority maintained total assets of approximately \$953.9 million, approximately \$1.1 million greater than total assets at October 31, 2006.

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Cash, investments, and rents and other receivables increased approximately \$9.7 million to \$16.2 million at October 31, 2007 and is primarily due to the collection of approximately \$3.5 million during fiscal 2007 representing transaction and administrative payments received on the sale of residential units in Site 2A and held in unrestricted funds. All assets accumulated in the unrestricted fund at October 31, 2006 were deposited into the 2003 Revenue Bond Resolution funds. Additionally, accrued rent receivables increased approximately \$5.9 million (see note 14) and is primarily attributable to base, PILOT, and other rents accrued in accordance with the Sites 23 and 24 leases.

The Authority's restricted assets represent funds and accounts established in accordance with the 2003 Revenue Bond Resolutions, approximately \$295.6 million at October 31, 2007, which is approximately \$82.7 million lower than the investment fair value of assets held at October 31, 2006 of \$378.3 million (see note 9). At October 31, 2007 funds held under the 2003 Revenue Bond Resolutions for the designated purposes of paying debt service were approximately \$14.3 million higher than October 31, 2006 primarily due to increased funding requirements. Other 2003 Revenue Bond Resolution reserves designated for the purposes of funding operations and debt service reserves increased \$5.2 million compared to October 31, 2006. An additional \$6.4 million was held as excess revenues at October 31, 2007 in the Residual Fund for the benefit of the City. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2007 were approximately \$95.9 million less than funds held at October 31, 2006. The decrease is primarily attributable to transfers of approximately \$310 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses, transferring funds to the City, and retaining funds in the Joint Purpose Fund. These transfers were offset by deposits of approximately \$214.7 million relating to ground lease payments, interest rate exchange agreement (Swap) receipts from the three counterparties, and interest earnings. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately \$12.6 million lower as compared to October 31, 2006 due to investments in infrastructure and other assets.

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At October 31, 2007, the Authority's investment in project assets, net of accumulated depreciation was approximately \$394.6 million, an increase of \$9.6 million over fiscal year ended October 31, 2006. 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 9.3 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums and cultural facilities, three public schools, a public library, and approximately 8,900 residential units. Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space, 1,321 residential units, and one school. Construction is underway for a 462-unit residential condo on Site 3, a 268-unit residential condo on Sites 16/17, as well as the 1.8 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26. Construction on three remaining sites is expected to begin in the spring of 2008 (see note 7); 2 buildings comprising 591 units on Sites 23 and 24 and a public school on Site 2B. The Authority's project assets include land, site improvements, and a residential building (Site 22) constructed by the Authority. Additionally, condo units owned by the Authority on Sites 1 and 16/17 and related infrastructure improvements are included in project assets at a cost of approximately \$1.5 million. The balances at October 31, 2007 and 2006 are as follows:

	<b>October 31</b>		<b>Increase</b>
	<b>2007</b>	<b>2006</b>	<b>(decrease)</b>
Land	\$ 83,015,653	83,015,653	—
Site improvements	334,671,507	320,540,142	14,131,365
Residential building and condominium units	43,268,009	43,080,997	187,012
	460,955,169	446,636,792	14,318,377
Less accumulated depreciation	(66,348,061)	(61,620,310)	(4,727,751)
Total Battery Park City project assets	\$ 394,607,108	385,016,482	9,590,626

For the fiscal year ended October 31, 2007, the increase in Project assets results from expenditures of approximately \$14.3 million, principally for new parks in the north neighborhood, security infrastructure, utility installation for new Site development, the build out of a parks maintenance facility to be used by Battery Park City Parks Conservancy (the Conservancy), as well as other minor capital improvements (see note 3).



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Other current and noncurrent assets at October 31, 2007 and 2006 are as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2007</b>	<b>2006</b>	
Residential lease required funds	\$ 7,620,015	7,231,822	388,193
Corporate-designated, escrowed and OPEB funds	191,252,361	124,722,327	66,530,034
Deferred costs:			
Bond issuance costs, net	39,345,722	40,784,197	(1,438,475)
Costs of leases, net	2,569,715	2,611,841	(42,126)
Total deferred costs, net	41,915,437	43,396,038	(1,480,601)
Other assets	6,779,850	7,677,934	(898,084)
Total other current and noncurrent assets	<u>\$ 247,567,663</u>	<u>183,028,121</u>	<u>64,539,542</u>

Other current and noncurrent assets increased approximately \$64.5 million from \$183 million at October 31, 2006 to \$247.6 million at October 31, 2007.

Residential lease required funds increased marginally by approximately \$388 thousand primarily from interest earnings.

Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$66.5 million from the prior fiscal year. The increase is primarily attributable to a \$103.5 million transfer of 2003 Revenue Bond Funds in January 2007 to the Joint Purpose Fund (see note 13), which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2006 and interest earned on a higher balance held during the fiscal year ended October 31, 2007. These increases were offset by a \$36.7 million disbursement from the Joint Purpose Fund to the New York City Housing Trust Fund in February 2007. The net impact to the Joint Purpose Fund was an increase of approximately \$69.4 million.

Additionally, \$4.8 million was transferred from the corporate designated funds, comprising approximately \$3.5 million to the 2003 Revenue Bond Funds (Residual Fund) held for the benefit of the City, approximately \$1.3 million from Authority reserves held on behalf of the Conservancy (see note 18(i)) for the payment of retroactive pension plan benefits for Conservancy employees, and \$222 thousand for the construction of a public library. Additionally, deposits to the Conservancy's operating reserve and interest earnings on all funds held increased the balance. Approximately \$14.2 million in corporate reserves were transferred to establish a new OPEB asset account for the exclusive purpose of paying postemployment medical benefits, resulting in no change in the total corporate designated funds.

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Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Additionally, amortization of legal costs incurred resulted in a decrease to cost of leases of approximately \$42 thousand. Other assets decreased by \$898 thousand primarily due a reduction of the gross asset values due to annual depreciation offset by minor fixed asset purchases.

Total liabilities at October 31, 2007 and 2006 are as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2007</b>	<b>2006</b>	
<b>Current liabilities:</b>			
Accrued interest on bonds	\$ 17,822,091	17,722,584	99,507
Accounts payable and other liabilities	6,555,860	9,018,941	(2,463,081)
Due to the City of New York	83,100,000	111,395,000	(28,295,000)
Due to the NYC Housing Trust Fund	—	36,651,610	(36,651,610)
Revenue received in advance	28,525,417	27,368,442	1,156,975
Total current liabilities	<u>136,003,368</u>	<u>202,156,577</u>	<u>(66,153,209)</u>
<b>Noncurrent liabilities:</b>			
Revenue received in advance	99,656,028	100,208,937	(552,909)
Security and Other Deposits	25,518,163	24,473,931	1,044,232
Other Post Employment Benefits	13,852,211	—	13,852,211
<b>Bonds outstanding:</b>			
2003 Revenue Bonds	1,063,602,784	1,064,776,522	(1,173,738)
Unamortized loss on extinguishment	<u>(31,846,828)</u>	<u>(33,623,195)</u>	<u>1,776,367</u>
Total noncurrent liabilities	<u>1,170,782,358</u>	<u>1,155,836,195</u>	<u>14,946,163</u>
Total liabilities	<u>\$ 1,306,785,726</u>	<u>1,357,992,772</u>	<u>(51,207,046)</u>

The Authority's total liabilities decreased approximately \$51.2 million from \$1.358 billion at October 31, 2006 to \$1.307 billion at October 31, 2007.

Current liabilities largely comprise amounts due to the City, accrued interest on bonds, the current portion of revenue received in advance, and accounts payable and accrued expenses. The \$66.2 million decrease in current liabilities is primarily due to the provision for amounts due to the City of \$111.4 million at October 31, 2006, which was paid in June 2007, as compared to an \$83.1 million provision accrued at October 31, 2007. Additionally, a \$36.7 million accrual recorded at October 31, 2006 representing the balance due to the New York City Housing Trust Fund (see note 18(g)) was paid in February 2007. Accrued interest payable on bonds, approximately \$17.8 million at October 31, 2007 is \$99.5 thousand higher than October 31, 2006 primarily due to higher interest rates paid on variable rate debt outstanding. Accounts payable and other liabilities decreased \$2.5 million from \$9 million at October 31, 2006 to \$6.6 million at October 31, 2007 (see note 15).

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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. The \$1.2 million decrease in the 2003 Revenue Bonds balance is 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, 2007.

Additionally, effective for the fiscal year beginning November 1, 2006, the Authority adopted GASB Statement No. 45, which establishes standards for the measurement, recognition, and presentation of OPEB, including plan expenditures and related liabilities (assets), and note disclosures. In accordance with GASB Statement No. 45, a \$14 million accrued postretirement medical benefit liability for all eligible current and retired employees was recorded. The annual required OPEB obligation was offset by the actual cost of retiree benefits paid during the fiscal year ended October 31, 2007 (see note 17).

In addition, as of October 31, 2007, total revenues received in advance increased by approximately \$604 thousand over October 31, 2006, primarily due to \$4.75 million upfront payment received from Site 2A, offset by revenue recognized on the payment received from Site 2A, and other upfront lease payments received during prior periods (see note 7).

Security and other deposits increased \$1 million to \$25.5 million at October 31, 2007 and relates to interest earnings on tenant deposits and other escrowed funds held by the Authority.

The net deficits at October 31, 2007 and 2006 were \$352.9 million and \$405.2 million, respectively. Investment in capital assets, net of related debt was \$1.4 million at October 31, 2007. 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 \$278.8 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 under bond Resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling approximately \$633.1 million resulting primarily from debt issued for noncapital purposes totaling approximately \$580 million and upfront lease payments and PILOT revenue received in advance, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

The overall change in total net assets from October 31, 2006 represents a positive change in the deficit position of approximately \$52.3 million from \$405.2 million at October 31, 2006 to \$352.9 million at October 31, 2007.

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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, 2007 and 2006:

	<b>October 31</b>		<b>Increase</b>
	<b>2007</b>	<b>2006</b>	<b>(decrease)</b>
Operating revenues:			
Revenues from ground leases:			
Base rent	\$ 52,718,959	54,458,404	(1,739,445)
Supplemental rent	604,069	670,875	(66,806)
Payments in lieu of real estate taxes	131,903,617	130,727,937	1,175,680
Civic facilities payments and others	20,839,234	6,560,860	14,278,374
Total operating revenues	<u>206,065,879</u>	<u>192,418,076</u>	<u>13,647,803</u>
Operating expenses:			
Wages and related benefits	7,833,515	6,412,543	1,420,972
OPEB	14,019,165	—	14,019,165
Other operating and administrative	23,461,540	23,555,617	(94,077)
Depreciation and amortization	7,886,987	7,948,784	(61,797)
Total operating expenses	<u>53,201,207</u>	<u>37,916,944</u>	<u>15,284,263</u>
Operating income	<u>152,864,672</u>	<u>154,501,132</u>	<u>(1,636,460)</u>
Nonoperating revenues (expenses):			
Investment and other income	25,886,969	23,884,018	2,002,951
Interest expense, net	(43,308,092)	(42,625,329)	(682,763)
Provision for transfer to the City of New York	(83,100,000)	(111,395,000)	28,295,000
Provision for transfer to the New York City Housing Trust Fund	—	(130,000,000)	130,000,000
Total nonoperating expenses, net	<u>(100,521,123)</u>	<u>(260,136,311)</u>	<u>159,615,188</u>
Change in net assets	52,343,549	(105,635,179)	157,978,728
Net deficit beginning of year	<u>(405,213,279)</u>	<u>(299,578,100)</u>	<u>(105,635,179)</u>
Net deficit end of year	<u>\$ (352,869,730)</u>	<u>(405,213,279)</u>	<u>52,343,549</u>

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A summary of revenues and expenses for the fiscal years ended October 31, 2007 and 2006 is as follows:

**Operating Revenues** – Overall operating revenues for the fiscal years ended October 31, 2007 and 2006 totaled \$206.1 million and \$192.4 million, respectively, and consist primarily of base (land) rent and PILOT from long-term leaseholds. Base rent revenue of \$52.7 million for the fiscal year ended October 31, 2007 decreased \$1.7 million from October 31, 2006 primarily due to a one-time adjustment to the recognition period of revenues received in advance, which resulted in an additional \$4.3 million recognized during the fiscal year ended October 31, 2006. The adjustment recorded in the prior year offset increases in scheduled lease payments and other rent accruals recorded during fiscal year ended October 31, 2007. In addition, PILOT revenues (which account for approximately 64% of the Authority's operating revenues) increased marginally by \$1.2 million, as a result of additions in assessments and collections on new leased parcels offset by a decrease in tax rates by the City. Civic facility and other revenues increased approximately \$14.3 million from \$6.6 million for the fiscal year ended October 31, 2006 to approximately \$20.8 million for the fiscal year ended October 31, 2007. The increase was primarily due to a \$6.8 million arbitration award from retail rents due to the Authority from the World Financial Center commercial buildings, Towers B and D, \$3.5 million from transaction and administrative payments received on the sale of residential units in Site 2A, approximately \$900 thousand in accrued pre-lease payments and interest earned thereon from newly leased Sites 23 and 24, and increases in civic facility and other payments received during the fiscal year ended October 31, 2007.

**Operating Expenses** – Operating expenses totaled approximately \$53.2 million for the fiscal year ended October 31, 2007, approximately \$15.3 million higher than the fiscal year ended October 31, 2006. The expenses include wages and related benefits; postretirement medical benefits; operating and administrative expenses such as site security and maintenance, insurance, rent, legal, and planning/design expenditures; as well as depreciation and amortization.

Wages and related benefits increased \$1.4 million primarily due to a one-time payment representing retroactive pension plan benefits for Conservancy employees of approximately \$1.3 million. In connection with the adoption of GASB Statement No. 45, the Authority expensed the actuarially derived retroactive OPEB liability for eligible current and retired employees and recorded a charge of \$14 million (see note 17).

Other operating and administrative expenses, decreased marginally by approximately \$94 thousand.

The decrease in amortization and depreciation expense is due to a lesser cost basis of assets held during fiscal year 2007 resulting from the full depreciation of certain assets during the prior fiscal year.

**Nonoperating Revenues (Expenses)** – Total net nonoperating expenses decreased \$159.6 million from \$260.1 million for the fiscal year ended October 31, 2006 to \$100.5 million during the fiscal year ended October 31, 2007. The decrease was primarily due to a \$130 million expense incurred during the fiscal year ended October 31, 2006 representing amounts due to the New York City Housing Trust Fund. In addition, a provision for a transfer to the City of \$83.1 million in excess revenues was charged for the fiscal year ended October 31, 2007, a decrease of approximately \$28.3 million from the fiscal year ended October 31, 2006. Offsetting the decreases to net nonoperating expenses, net interest expense increased approximately \$683 thousand for the fiscal year ended October 31, 2007 and is due to higher interest rates paid on the variable rate 2003 Revenue Bonds offset by higher interest rates earned on the interest rate exchange agreements entered

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into in 2003. Investment and other income increased \$2 million over the prior fiscal year due to an increase in the fair market value of investments held at October 31, 2007 as compared to October 31, 2006, as well as greater realized gains on investments which offset lower market interest rates available on investments for the fiscal year ended October 31, 2007.

**Change in Net Assets** – The total net deficits at October 31, 2007 and 2006 were \$352.9 million and \$405.2 million, respectively.

### Comparison of 2006 to 2005

#### *Financial Highlights*

- On December 30, 2005, a ground lease for the development of Site 16/17 in the north neighborhood 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 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 ongoing 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 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. At commencement of the ground lease, Battery Place Green, LLC began regular payments of base rent, PILOT, and other elements of rent to the Authority in accordance with lease provisions.
- The fiscal 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, increases in tax rates by the City, and new leases entered into when compared to the previous fiscal 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 \$36.7 million is expected to be transferred to the New York City Housing Trust Fund in February 2007, satisfying the Authority's \$130 million commitment. In addition, at October 31, 2006, the Authority holds approximately \$51.8 million in the Project Costs Fund 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	205,099,273	235,110,744	(30,011,471)
Unrestricted	(616,531,800)	(546,037,497)	(70,494,303)
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 rental income deposited in the bond resolution restricted asset fund at October 31, 2006 as opposed to being held in unrestricted funds at October 31, 2005, as well as a decrease in accrued rental revenues.

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The Authority's bond resolution assets are predominantly related to funds and accounts established in accordance with the 2003 Revenue 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 under the Settlement Agreement (see notes 9 and 13). 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 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:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2006</b>	<b>2005</b>	
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>	21,046,361
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 Fund, offset by a \$43.8 million transfer of 2003 Revenue Bond Funds to Joint Purpose Funds 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 in deposits made to corporate reserves designated for the Conservancy, 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>	
<b>Current liabilities:</b>			
Accrued interest on bonds	\$ 17,722,584	17,499,109	223,475
Accounts payable and other liabilities	9,018,941	11,526,284	(2,507,343)
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>202,156,577</u>	<u>160,008,182</u>	<u>42,148,395</u>
<b>Noncurrent liabilities:</b>			
Revenue received in advance	100,208,937	37,350,894	62,858,043
Security and other deposits	24,473,931	19,729,858	4,744,073
<b>Bonds outstanding:</b>			
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>1,155,836,195</u>	<u>1,087,631,451</u>	<u>68,204,744</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 New York City Housing Trust Fund, accrued interest on bonds, revenue received in advance, and accounts payable and accrued expenses. The \$42.1 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, \$36.7 million was accrued at October 31, 2006 representing the balance due to the New York City Housing Trust Fund. 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.

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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 of \$60 million and \$11.5 million, received from Site 16/17 and Site 3, respectively, offset by revenue recognized on the upfront payments received during the fiscal year ended October 31, 2006 and during prior periods.

Security and other deposits increased \$4.7 million to \$24.5 million at October 31, 2006 and relates to a \$3.5 million lease payment received from Goldman Sachs, which is held in escrow by the Authority for the benefit of the local community board to help fund a library in the base of Site 16/17 and interest earnings on tenant deposits and other escrowed funds held by the Authority.

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 \$205.1 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 remaining balance is classified as an unrestricted deficit totaling approximately \$616.5 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>Increase (decrease)</b>
	<b>2006</b>	<b>2005</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	<u>192,418,076</u>	<u>179,648,428</u>	<u>12,769,648</u>
Operating expenses:			
Wages and related benefits	6,412,543	6,061,597	350,946
Other operating and administrative	23,555,617	20,586,154	2,969,463
Depreciation and amortization	7,948,784	8,770,144	(821,360)
Total operating expenses	<u>37,916,944</u>	<u>35,417,895</u>	<u>2,499,049</u>
Operating income	<u>154,501,132</u>	<u>144,230,533</u>	<u>10,270,599</u>
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	—	(291,920)	291,920
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	<u>(130,000,000)</u>	<u>—</u>	<u>(130,000,000)</u>
Total nonoperating expenses, net	<u>(260,136,311)</u>	<u>(134,683,385)</u>	<u>(125,452,926)</u>
Change in net assets	(105,635,179)	9,547,148	(115,182,327)
Net deficit beginning of year	<u>(299,578,100)</u>	<u>(309,125,248)</u>	<u>9,547,148</u>
Net deficit end of year	<u>\$ (405,213,279)</u>	<u>(299,578,100)</u>	<u>(105,635,179)</u>

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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, operating 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, collections on 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 site security and maintenance, insurance, rent, legal, 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, lease renewals, legal fees, and amounts funded for the benefit of the Conservancy offset by decreases in site security 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 fiscal year ended October 31, 2005.

**Nonoperating Revenues (Expenses)** – Total net nonoperating expenses increased \$125.5 million from \$134.7 million for the fiscal year ended October 31, 2005 to \$260.2 million for the fiscal year ended October 31, 2006. The increase was primarily due to a \$130 million charge representing a transfer of funds to the New York City 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 are 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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**Other Information**

**Debt Administration** – At October 31, 2007, the Authority was responsible for debt service on \$1.068 billion of 2003 Revenue Bonds issued in October 2003. The 2003 Revenue Bonds include: \$433 million (including a net premium) of senior lien obligations and \$635 million of junior lien debt obligations:

<u>2003 Revenue Bonds</u>	<u>Outstanding debt</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Standard &amp; Poor's (S&amp;P)</u>
2003 Series Senior A Bonds	\$ 433,000,000	AAA	Aaa	AAA
2003 Series Junior B Bonds*	235,000,000	AAA	Aaa	AAA
2003 Series Junior C Bonds*	400,000,000	AAA	Aaa	AAA

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

**Requests for Information** – This financial report is designed to provide a general overview of the Authority's finances to all interested parties. 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, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Current assets:		
Bank deposits	\$ 14,359	175,273
Investments (note 3)	3,659,502	—
Corporate-designated, escrowed and OPEB funds (note 3)	—	36,651,610
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of \$113,667 in 2007 and \$183,290 in 2006) (note 14)	12,491,093	6,295,185
2003 Revenue Bond Resolution Funds (notes 3, 9, 10, 11)	<u>130,346,604</u>	<u>160,960,060</u>
Total current assets	<u>146,511,558</u>	<u>204,082,128</u>
Noncurrent assets:		
Restricted assets:		
2003 Revenue Bonds (notes 3, 9, 10, and 11)	165,229,467	217,304,372
Residential lease required funds (note 3)	7,620,015	7,231,822
Corporate-designated, escrowed and OPEB funds (note 3)	191,252,361	88,070,717
Deferred costs (note 3):		
Bond issuance costs, less accumulated amortization of \$11,417,325 in 2007 and \$9,978,851 in 2006	39,345,722	40,784,197
Costs of leases, less accumulated amortization of \$767,580 in 2007 and \$725,454 in 2006	2,569,715	2,611,841
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, and 4)	394,607,108	385,016,482
Other assets	<u>6,779,850</u>	<u>7,677,934</u>
Total noncurrent assets	<u>807,404,238</u>	<u>748,697,365</u>
Total assets	<u>\$ 953,915,796</u>	<u>952,779,493</u>

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Balance Sheets

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<b>Liabilities and Net Deficit</b>	<b>2007</b>	<b>2006</b>
Current liabilities:		
Accrued interest on bonds	\$ 17,822,091	17,722,584
Accounts payable and other liabilities (note 15)	6,555,860	9,018,941
Due to the City of New York (note 13)	83,100,000	111,395,000
Due to New York City Housing Trust Fund (note 18(g))	—	36,651,610
Revenue received in advance (note 3):		
PILOT revenue	21,766,569	21,672,408
Base rent revenue and other revenue	6,758,648	5,696,034
Total current liabilities	136,003,168	202,156,577
Noncurrent liabilities:		
Revenue received in advance (note 3):		
Base rent revenue and other revenue	99,656,028	100,208,937
Security and other deposits (note 15)	25,518,163	24,473,931
OPEB (note 17)	13,852,211	—
Bonds outstanding (notes 10, 11, 12, and 13):		
2003 Revenue Bonds, less accumulated amortization of \$4,743,187 in 2007 and \$3,569,450 in 2006	1,063,602,784	1,064,776,522
Unamortized loss on extinguishment	(31,846,828)	(33,623,195)
Total noncurrent liabilities	1,170,782,358	1,155,836,195
Total liabilities	1,306,785,526	1,357,992,772
Net assets (deficit) (note 3):		
Invested in capital assets, net of related debt	1,439,539	6,219,248
Restricted:		
Debt service	102,072,256	83,882,870
Under bond resolutions and other agreements	176,687,985	121,216,403
Unrestricted deficit	(633,069,510)	(616,531,800)
Total net deficit	(352,869,730)	(405,213,279)
Total liabilities and net deficit	\$ 953,915,796	952,779,493

See accompanying notes to basic financial statements.



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

Years ended October 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Revenues from ground leases (notes 3, 5, 6, 7, and 8):		
Base rent	\$ 52,718,959	54,458,404
Supplemental rent	604,069	670,875
Payments in lieu of real estate taxes	131,903,617	130,727,937
Civic facilities payments and other	20,839,234	6,560,860
Total operating revenues	<u>206,065,879</u>	<u>192,418,076</u>
Operating expenses:		
Wages and related benefits	7,833,515	6,412,543
OPEB (note 17)	14,019,165	—
Other operating and administrative	23,461,540	23,555,617
Depreciation of project assets	4,727,751	4,476,039
Other depreciation and amortization	3,159,236	3,472,745
Total operating expenses	<u>53,201,207</u>	<u>37,916,944</u>
Operating income	<u>152,864,672</u>	<u>154,501,132</u>
Nonoperating revenues (expenses):		
Investment income on funds relating to:		
2003 Revenue Bonds (note 11)	3,933,196	4,519,226
Corporate-designated, escrowed and other funds	4,521,576	4,910,883
Net increase in the fair value of investments	17,432,197	14,453,909
Interest expense relating to:		
2003 Swap Agreements – net interest income (expense)	266,957	(977,047)
2003 Revenue Bonds (note 11)	(41,798,683)	(39,871,916)
Loss from extinguishment	(1,776,366)	(1,776,366)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 13)	(83,100,000)	(111,395,000)
Provision for transfer to the New York City Housing Trust Fund	—	(130,000,000)
Total nonoperating expenses	<u>(100,521,123)</u>	<u>(260,136,311)</u>
Change in net assets	52,343,549	(105,635,179)
Net deficit, beginning of year	<u>(405,213,279)</u>	<u>(299,578,100)</u>
Net deficit, end of year	<u>\$ (352,869,730)</u>	<u>(405,213,279)</u>

See accompanying notes to basic financial statements.

**HUGH L. CAREY BATTERY PARK CITY AUTHORITY**  
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Statements of Cash Flows

Years ended October 31, 2007 and 2006

	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 199,058,301	259,075,514
Miscellaneous receipts	335,670	506,683
Total cash receipts from operating activities	199,393,971	259,582,197
Cash payments for:		
Salaries and benefits	(7,920,334)	(6,023,952)
Services and supplies	(23,939,046)	(24,567,324)
Total cash payments from operating activities	(31,859,380)	(30,591,276)
Net cash provided by operating activities	167,534,591	228,990,921
Cash flows from noncapital financing activities:		
Goldman Sachs (payments) receipt for Battery Park City Library (note 5)	(221,780)	3,500,000
Payment to the New York City Housing Trust Fund	(36,651,610)	(93,348,390)
Payment to New York City	(111,395,000)	(107,200,000)
Net cash used in noncapital financing activities	(148,268,390)	(197,048,390)
Cash flows from capital and related financing activities:		
Development costs – site improvements and construction	(15,417,353)	(22,593,079)
Fixed asset costs	(754,110)	(2,146,790)
Reimbursements for development costs	762,295	—
Defeasance Escrow Funds	343,492	—
Auction fees paid for variable debt	(1,606,875)	(1,608,785)
Payment made on the 2003 Swap Agreement	(13,808,000)	(13,808,000)
Swap interest payments received	14,118,335	12,504,493
Interest paid on 2003 Junior Revenue Bonds	(21,369,907)	(19,288,688)
Interest paid on 2003 Senior Revenue Bonds	(19,855,799)	(19,855,799)
Net cash used in capital and related financing activities	(57,587,922)	(66,796,648)
Cash flows from investing activities:		
Interest and realized gains received on investment securities	25,492,849	23,993,634
Fair value adjustment – short term securities	201,859	5,890
Redemption and sale of investment securities	381,669,770	509,661,301
Purchase of investment securities	(380,729,318)	(487,403,473)
Net cash provided by investing activities	26,635,160	46,257,352
(Decrease) increase in cash and cash equivalents	(11,686,561)	11,403,235
Cash and cash equivalents, beginning of year	260,970,269	249,567,034
Cash and cash equivalents, end of year	\$ 249,283,708	260,970,269
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 152,864,672	154,501,132
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,886,987	7,948,784
Bad debt expense	(13,337)	30,358
Other	(226,655)	—
Changes in operating assets and liabilities:		
(Increase) decrease in rents and other receivables	(6,673,934)	2,698,782
Increase in deferred sublease costs	—	(211,640)
(Increase) decrease in other assets	(7,589)	61,277
Decrease in accounts payable and other liabilities	(806,784)	(1,235,526)
Increase in OPEB	13,852,211	—
Increase in revenue received in advance	659,020	65,197,754
Net cash provided by operating activities	\$ 167,534,591	228,990,921
Reconciliation to cash and cash equivalents, end of period:		
Bank deposits	\$ 14,359	175,273
Cash and cash equivalents (note 3)	4,389,105	3,549,895
Investments with less than 91-day maturities at purchase (note 3)	244,880,244	257,245,101
Cash and cash equivalents, end of period	\$ 249,283,708	260,970,269

See accompanying notes to basic financial statements.

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**(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 (the Project) area; the creation in such area, in cooperation with the City of New York (the City) and the private sector, of a mixed commercial and residential community; and the making of loans secured by first mortgages to any housing company organized to provide housing within the project area pursuant to the New York State Private Housing Finance Law. The Act also authorizes the Authority to pledge and assign revenues to secure financing for low- and moderate-income housing developments outside the project area, as well as issue bonds for the purposes of furthering the development of a commodities and futures exchange facility in Battery Park City, repaying certain State appropriations, and making 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 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 9.3 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, three public schools, a public library, and approximately 8,900 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, 1,321 residential units, and one school. Construction is underway for a 462-unit residential condo on Site 3, a 268-unit residential condo on Sites 16/17, as well as the 1.8 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26. Construction on three remaining sites is expected to begin in the spring of 2008 (see note 7); 2 buildings comprising 591 units on Sites 23 and 24 and a public school on Site 2B. 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 sites on the Project have been formerly designated for development.

**(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 do 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, 2007 and 2006 are capitalized as project assets and classified as follows:

	<b>Balance at October 31, 2006</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at October 31, 2007</b>
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	320,540,142	14,131,365	—	334,671,507
Residential building and condominiums	43,080,997	187,012	—	43,268,009
Total project assets	<u>446,636,792</u>	<u>14,318,377</u>	<u>—</u>	<u>460,955,169</u>
Less accumulated depreciation:				
Site improvements	54,895,362	3,885,108	—	58,780,470
Residential building and condominiums	6,724,948	842,643	—	7,567,591
Total accumulated depreciation	<u>61,620,310</u>	<u>4,727,751</u>	<u>—</u>	<u>66,348,061</u>
Net project assets	<u>\$ 385,016,482</u>	<u>9,590,626</u>	<u>—</u>	<u>394,607,108</u>

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	<u>Balance at October 31, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at October 31, 2006</u>
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	300,833,526	20,637,165	930,549	320,540,142
Residential building and condominiums	<u>41,741,252</u>	<u>1,339,745</u>	<u>—</u>	<u>43,080,997</u>
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	<u>5,837,671</u>	<u>887,277</u>	<u>—</u>	<u>6,724,948</u>
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>

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 and the condominium units through the first appraisal date of each lease.

**(d) Revenue from Ground Leases**

Revenue from ground leases is recognized as income, as such amounts become receivable under the provisions of each lease, except that PILOT and other payments received in advance of the period to which they relate are deferred and recognized as income during future periods. 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. In accordance with the lease terms, the Authority received upfront lease payments in fiscal periods prior to 2007 of \$42 million, \$60 million, and \$11.5 million from residential buildings on Site 22, Site 16/17 and Site 3, respectively. Additionally, the Authority received \$4.75 million from site 2A during fiscal 2007. With the exception of Site 2A, the Authority is recognizing revenue for these payments on a straight-line basis over the first 25-year lease period. Upfront payments received from Site 2A will be recognized through May 2011 in accordance with the lease terms. In August 2005, the Site 26 commercial ground lease was signed, providing for a one time lump-sum base rent payment of approximately \$161 million to be deposited with an escrow agent. The deposit was paid in June 2007

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and is due to be paid to the Authority in December 2009 subject to the fulfillment of certain conditions to be performed by the City. Base rent revenue relating to the one-time payment is being recognized on a pro rata basis over the lease term. Amounts not recognized are reported as revenue received in advance in current and noncurrent liabilities.

**(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, 2007 and 2006 included within the balance sheet accounts: investments, corporate-designated, escrowed, and postemployment benefit funds, bond resolution funds (see note 9), and residential lease required funds are as follows:

	2007			2006		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	\$ 43,700,486	46,924,932	4.30	\$ 52,308,205	54,702,279	4.13
Commercial paper	91,987,254	92,376,392	0.11	72,836,787	73,058,851	0.07
Federal agency securities	302,538,581	304,945,337	0.73	316,051,602	317,846,504	0.65
Federal agency mortgage-backed securities	44,975,563	44,387,538	2.87	54,005,122	53,165,180	2.94
Municipal bonds	4,930,000	4,950,003	0.02	6,830,000	6,856,178	0.02
Total investments	488,131,884	493,584,202	1.14	502,031,716	505,628,992	1.17
Cash and cash equivalents	4,523,747	4,523,747		4,589,589	4,589,589	
Total investments and deposits	\$ 492,655,631	498,107,949		\$ 506,621,305	510,218,581	

(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 of the total portfolio, and provide an appropriate level of liquidity for Authority operations.

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The Authority's permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, GNMA 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 which as of October 31, 2007 were A1/P1; and (iv) municipal bonds issued by New York authorities that currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

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

Interest rate risk is the probability of loss on investments from future changes in interest rates that can adversely affect the fair value of such investments. 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, escrowed, and OPEB funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund (see note 11), project contingency reserves, restoration reserves, insurance reserves, arbitrage reserves, and funds designated for the payment of medical benefits to the Authority's retirees. Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds largely comprise 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.

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**(g) *Deferred Costs***

Bond issuance costs are amortized over the related bonds remaining period to maturity using the straight-line method. 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.

**(i) *Defined Postemployment Benefits***

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement establishes standards for the measurement, recognition, and financial statement presentation of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The Authority, a component unit of the State, implemented GASB Statement No. 45 to coincide with the State's requirement to do the same for their fiscal year ended March 31, 2008.

In accordance with GASB Statement No. 45, effective for the fiscal year beginning November 1, 2006, the Authority (a) implemented a systematic, accrual basis measurement and recognition of OPEB cost (expense) over a period that approximates an employees' years of service, and (b) provides information about actuarial accrued liabilities associated with OPEB and to what extent progress is being made in funding the plan (see note 17).

**(j) *Reclassifications***

Certain fiscal 2006 amounts were reclassified to conform to the fiscal 2007 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 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, 2007, the City had not expressed its intent regarding its right to reacquire the Project site.



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**(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, 2007, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$1.09 billion over the remaining lease terms in the following annual amounts: (i) base rent of \$17,000,000 per annum from 2008 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.

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 500,000 square feet trading facility and office building complex 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.

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In 1998, a lease was signed for the development of a 463-room luxury hotel and cinema complex (approximately 600,000 square feet) north of the WFC (the north neighborhood) on Site 25. The Site 25 ground lease provides for an abatement program for the hotel and cinema complex. In addition, in January 2001, a lease was signed for the development of a luxury hotel (approximately 278,000 square feet) and residential complex on Site 1 south of the WFC (the south neighborhood).

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 in the north neighborhood. The Site 26 ground lease requires that a \$161 million lump sum rent payment be deposited with an escrow agent, which was paid in June 2007 and is due to be paid to the Authority in December 2009, subject to the fulfillment of certain conditions to be performed by the City. PILOT payments under the lease are made subject to incentive exemptions to Goldman Sachs, which are contingent on Goldman Sachs' employment and headquarter commitments to the City. In addition, in December 2005, Goldman Sachs made a \$3.5 million lease payment to the Authority which is 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, 2007, approximately \$222 thousand was 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.

Permanent financing was provided by the Authority from the proceeds of Housing Revenue Bonds (HRBs) (see note 12). 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.

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, assignment of the lease to Marina Towers, amendment of the lease with restructuring of tax equivalency payments, and a lump-sum payment of \$12 million to be paid to an entity or entities, which must 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.

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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 pre-refinancing 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.

**(7) Residential and Other Development**

In addition to the Gateway Project, the Authority entered into leases in the south 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. The final site on the Project was designated as a public school (see note 18(d)). In the north neighborhood, 8 buildings consisting of approximately 2,237 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 in lieu of paying real property taxes to the City. PILOT is based on the assessed value of the premises as established by the City and the tax rate then applicable to similar classes of real property located in the borough of Manhattan. Many leases provide for an abatement equivalent to the real estate tax abatements provided for in the State's Real Property Tax Law, and are either 10 or 20 years in duration. Abatements for two recent developments in the south neighborhood will end in 2020 and abatements for the north neighborhood will end in 2020 or thereafter.

Certain residential leases also provide for supplemental rental payments, generally through the first appraisal date, which are to be paid if 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.

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On December 30, 2005, a ground lease for the development of Site 16/17 in the north neighborhood 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. 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 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. At commencement of the ground lease, Battery Place Green, LLC began regular payments of base rent, PILOT, and other elements of rent to the Authority in accordance with lease provisions.

On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$1.3 million of base rent, \$787 thousand of PILOT, and \$899 thousand in interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2007. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds from the sale of condominium units will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which will be owned by the Authority as condominium units. Construction of the buildings is expected to begin in the spring of 2008.

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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, 2008 through 2012 and thereafter are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>
	(In thousands)						
Commercial development:							
Base rent	\$ 27,659	27,155	24,743	25,098	25,114	1,270,396	1,400,165
Residential developments:							
Gateway Project base rent	305	305	305	305	305	8,450	9,975 (a)
South residential:							
Base rent	12,615	13,129	13,466	14,490	17,218	1,357,834	1,428,752
Other minimum payments	13,154	12,620	8,242	7,373	2,049	—	43,438
Subtotal South residential	<u>25,769</u>	<u>25,749</u>	<u>21,708</u>	<u>21,863</u>	<u>19,267</u>	<u>1,357,834</u>	<u>1,472,190</u>
North residential:							
Base rent	3,397	3,466	3,546	3,654	3,706	378,577	396,346
Other minimum payments	4,036	4,092	4,148	4,203	4,457	46,713	67,649
Subtotal North residential	<u>7,433</u>	<u>7,558</u>	<u>7,694</u>	<u>7,857</u>	<u>8,163</u>	<u>425,290</u>	<u>463,995</u>
Total	<u>\$ 61,166</u>	<u>60,767</u>	<u>54,450</u>	<u>55,123</u>	<u>52,849</u>	<u>3,061,970</u>	<u>3,346,325</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 excluded.

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

The current and noncurrent balance in the funds and accounts established in accordance with the Authority's 2003 Revenue Bond Resolutions and held by trustees are as follows at October 31, 2007 and 2006:

<b>October 31, 2007</b>				
<b>2003 Revenue Bonds</b>				
	<b>General Bond Resolution</b>	<b>Senior Bond Resolution</b>	<b>Junior Bond Resolution</b>	<b>Total</b>
Debt Service Funds	\$ —	12,321,145	34,091,124	46,412,269
Reserve Funds	73,482,079	—	—	73,482,079
Project Costs Fund	39,217,561	—	—	39,217,561
Project Operating Fund	9,035,283	—	—	9,035,283
Residual Fund	9,786,176	—	—	9,786,176
Pledged Revenue Fund	117,642,703	—	—	117,642,703
	\$ 249,163,802	12,321,145	34,091,124	295,576,071

<b>October 31, 2006</b>				
<b>2003 Revenue Bonds</b>				
	<b>General Bond Resolution</b>	<b>Senior Bond Resolution</b>	<b>Junior Bond Resolution</b>	<b>Total</b>
Debt Service Funds	\$ —	11,522,265	20,617,652	32,139,917
Reserve Funds	69,465,535	—	—	69,465,535
Project Costs Fund	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
	\$ 346,124,515	11,522,265	20,617,652	378,264,432

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

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

Amounts in the Debt Service Reserve Funds and dedicated funds established under the 2003 Revenue Bond Resolutions are used to pay debt service on the respective bonds.

Debt Service Reserve Funds and dedicated revenue funds, 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.

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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.

Amounts held in the 2003 Pledged Revenue Fund (PRF) are 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.

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

**(10) Authority Bonds Authorized**

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.

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 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, 2007, no bonds have been issued for this purpose.

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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 11).

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) 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.

The refundings resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by approximately \$39 million. The difference between the reacquisition price and the net carrying amount of the refunded debt was reflected on the Authority's balance sheet as an unamortized loss on extinguishment of debt and is being deferred over the life of the old debt with a pro rata charge to interest expense for the years ended October 31, 2007 and 2006.



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At October 31, 2007, the 2003 Series A Bonds consist of the following serial bonds:

Fiscal year	Coupon rates	Senior A principal	Interest
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 – 5.50	14,375,000	18,556,439
2012	3.40 – 5.50	15,205,000	17,915,983
2013 – 2017	3.50 – 5.50	91,580,000	76,878,739
2018 – 2022	4.00 – 5.25	121,875,000	50,156,219
2023 – 2026	4.60 – 5.00	122,120,000	15,597,585
		<u>\$ 406,350,000</u>	<u>237,596,522</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 basis over the lives of the 2003 Series A Bonds. At October 31, 2007 and 2006, the unamortized net bond premium was approximately \$22.3 million and \$23.4 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.

At October 31, 2007, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

	Junior B		Junior C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal year:						
2008	\$ —	7,353,229	3,375,000	13,234,507	3,375,000	20,587,736
2009	—	7,353,229	5,450,000	13,055,657	5,450,000	20,408,886
2010	—	7,353,229	5,450,000	12,876,718	5,450,000	20,229,947
2011	—	7,353,229	5,450,000	12,697,868	5,450,000	20,051,097
2012	—	7,353,229	5,450,000	12,518,930	5,450,000	19,872,159
2013 – 2017	—	36,766,146	27,250,000	59,911,366	27,250,000	96,677,512
2018 – 2022	—	36,766,146	28,775,000	55,349,449	28,775,000	92,115,595
2023 – 2027	—	36,766,146	68,850,000	48,964,256	68,850,000	85,730,402
2028 – 2032	—	36,766,146	216,325,000	20,004,636	216,325,000	56,770,782
2033 – 2037	150,650,000	25,165,305	33,625,000	—	184,275,000	25,165,305
2038 – 2039	84,350,000	1,345,481	—	—	84,350,000	1,345,481
Total	<u>\$ 235,000,000</u>	<u>210,341,515</u>	<u>400,000,000</u>	<u>248,613,387</u>	<u>635,000,000</u>	<u>458,954,902</u>

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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 Series B Bonds reset on a 7-day auction cycle and the 2003 Series C Bonds reset on a 35-day auction cycle.

Interest in the above table is based on actual auction rates closest to October 31, 2007, which were 3.20%, 2.90%, and 3.15% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 3.45%, 3.40%, 3.25%, 3.15%, and 3.15% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

The 2003 Series B Bonds in entirety and \$100 million of the 2003 Series C Bonds are insured by Financial Security Assurance, Inc. (FSA). The remaining \$300 million of the 2003 Series C Bonds are insured by AMBAC Assurance Corporation (AMBAC).

On October 2, 2003, the Authority executed six interest rate exchange agreements (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).

	<b>2003 Series C principal</b>	<b>Interest rate swaps</b>		
		<b>Payment</b>	<b>Receipts</b>	<b>Net payment</b>
Fiscal year:				
2008	\$ 3,375,000	(13,691,495)	12,133,007	(1,558,488)
2009	5,450,000	(13,503,361)	11,966,288	(1,537,073)
2010	5,450,000	(13,315,227)	11,799,569	(1,515,658)
2011	5,450,000	(13,127,093)	11,632,850	(1,494,243)
2012	5,450,000	(12,938,959)	11,466,131	(1,472,828)
2013 – 2017	27,250,000	(61,872,785)	54,829,871	(7,042,914)
2018 – 2022	28,775,000	(57,075,368)	50,578,539	(6,496,829)
2023 – 2027	68,850,000	(50,360,365)	44,627,898	(5,732,467)
2028 – 2032	216,325,000	(20,131,201)	17,839,688	(2,291,513)
2033	33,625,000	—	—	—
	<u>\$ 400,000,000</u>	<u>(256,015,854)</u>	<u>226,873,841</u>	<u>(29,142,013)</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 4.70625% on October 31, 2007, which the counterparties are obligated to pay the Authority on a monthly basis.

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The Swaps had a negative fair market value of approximately \$(5.8) million at October 31, 2007. 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.

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 PRF established under the 2003 General Bond Resolution. The PRF, including income and earnings on investments thereof, has been pledged and assigned to a trustee for the benefit of the owners of 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 PRF 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 PRF in excess of funding requirements for project operating expenses and certain other amounts will be transferred into an unpledged Residual Fund and may be used by the Authority for other purposes (see note 9).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement (see note 13), to provide for the custody of the Special Fund. 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 (see note 18 (h)), 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.

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**(12) Housing Revenue Bonds**

The HRBs, which were issued to provide financing for the Gateway Project 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.

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.

**(13) 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 \$111.4 million provided for the transfer to the City at fiscal year ended October 31, 2006 was paid in June 2007. A provision in the amount of \$83.1 million was charged to operations for the fiscal year ended October 31, 2007. The Authority retained approximately \$44 million of fiscal year 2007 and \$103.5 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 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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**(14) Rents and Other Receivables**

Rents and other receivables comprise the following at October 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Interest on swap agreements	\$ 1,146,452	1,191,511
Miscellaneous receivables	1,334,728	774,722
Rents receivable	820,976	1,154,042
Accrued rental income	9,302,604	3,358,200
Total receivables	12,604,760	6,478,475
Less allowance for doubtful accounts	(113,667)	(183,290)
Net receivables	\$ 12,491,093	6,295,185

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

Accounts payable and other liabilities at October 31, 2007 and 2006 comprise the following:

	<b>2007</b>	<b>2006</b>
Amounts due to vendors	\$ 2,785,629	4,494,942
Contract retention costs	2,852,471	2,762,662
Due to developers	27,500	27,500
Accrued payroll and benefits	484,063	575,119
Accrued legal settlement	406,197	1,158,718
Total	\$ 6,555,860	9,018,941

**(16) 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.

The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than 10 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

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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:

2007	\$	392,719		498,294
2006		509,748		208,984
2005		208,984		<u>1,609,745</u>
2004		<u>1,609,745</u>		
Total	\$	<u>1,609,745</u>		

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

**(17) Postemployment Healthcare Plan**

*Plan Description*

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the State as a agent multiple employer defined benefit plan. Under the plan the Authority provides certain healthcare for eligible retired employees and their dependents under a single employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. The Authority's Board is authorized to establish contribution rates for employees and retirees below those set by Civil Service Law. The Authority's Plan states that employees and/or their dependents become eligible for these benefits at 55 years of age when the employee has 10 years of State service. In calculating the 10 year service requirement, all of the employee's service need not be with the Authority, but may be a composite of New York State service elsewhere, with a minimum of 3 years with the Authority. Employees with no prior State service must work a minimum of 10 years before they and their dependents are eligible for the retirement medical benefits. Eligible retirees hired on or after November 1, 2001, contribute 10% of the cost of single coverage and 25% of the cost of dependent coverage for health insurance benefits. The Authority covers 100% of the cost of single and dependent coverage for employees hired before November 1, 2001. A vestee is an Authority employee vested as a member of the retirement system administered by the State, has withdrawn from State service after meeting the Authority's minimum service requirement, but has not met the age requirement for continuing health insurance. Approximately 94 participants, including 62 current employees, 3 vestees, and 29 retired and/or spouses of retired employees were eligible to receive these benefits at October 31, 2007. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

Effective November 1, 2006, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. Through the fiscal year ended October 31, 2006, OPEB provisions were financed on a pay-as-you-go basis. The first actuarial valuation date is November 1, 2006. Actuarial valuations involve estimates of the value of reported amounts, assumptions

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about the probability of events in the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about employment mortality and the healthcare cost trend.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Since the Authority used a one year amortization period, the ARC in future years represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any interest on the unfunded actuarial accrued liability. The Authority's current year ARC is approximately \$14 million as detailed in the chart in the OPEB Status and Funding Progress section of this note.

***Funding***

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

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 2006, actuarial valuation, the unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% (net of administrative expenses) including inflation, declining 1% each year to an ultimate trend rate of 5%. Both rates include a 3% inflation assumption. The Authority's unfunded actuarial accrued liability is being amortized over a period of one year.

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***OPEB Status and Funding Progress***

The Authority's OPEB obligation and the funded status of the plan as of October 31, 2007 are as follows:

Actuarial Accrued Liability (AAL):		
Net OPEB obligation beginning of year	\$	—
Annual required contribution (ARC):		
Normal cost		688,304
Amortization of unfunded AAL		12,791,662
Interest to year-end		539,199
Payments for retirees during year		(166,954)
Net OPEB obligation end of year	\$	<u>13,852,211</u>
Actuarial Accrued Liability (AAL) November 1, 2006	\$	12,791,662
Funded OPEB plan assets November 1, 2006		—
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2006	\$	<u>12,791,662</u>
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll	\$	5,001,187
UAAL as percentage of covered payroll		256%

The Members of the Board authorized the segregation of corporate assets for the entire OPEB obligation as of October 31, 2007 and \$14.2 million was deposited into a separate Corporate OPEB account for the exclusive purpose of paying OPEB obligations. The OPEB assets are included on the balance sheet within the other corporate designated, escrowed fund and postemployment benefit financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

**(18) Commitments and Other Matters**

- (a) The Authority has entered into construction and other related contracts having unexpended balances aggregating approximately \$46.6 million as of October 31, 2007.
- (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 \$2.1 million and \$2.6 million for the fiscal years ended October 31, 2007 and 2006, respectively.
- (c) The terrorist attack on the World Trade Center on September 11, 2001 (9/11) 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 monies were deposited into a fund jointly controlled by the Authority and the management team of the World Financial Center (BFP, American Express Company, and Merrill Lynch & Co.) in May 2006 for the purpose of ensuring access into Battery Park City from



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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) In November 2007, the Authority designated The New York City School Construction Authority (SCA) as the ground lessee and developer of Site 2B for the purpose of constructing a public school for elementary and intermediate school students. Site 2B, in the south neighborhood is the last parcel available for development. The project is planned to be funded by the New York City Department of Education. Commencement of construction is targeted for June 2008, contingent on certain arrangements with the current temporary occupant at the site and a long-term ground lease, until 2069, consistent with all the Authority's other ground leases. The Authority is expected to receive nominal rent for the Site.
- (e) The City owns Pier A (a three-story historic landmark building), and a contiguous upland area (together, the Pier), which are located adjacent to the Project at its southern tip. In December 2007, the Authority and the City executed a nonbinding Term Sheet, providing for their negotiation in good faith of a long-term lease of the Pier based on the major terms described in the Term Sheet. Under the lease, the Authority will redevelop the Pier, which would then be used for recreational, maritime and ancillary uses, including retail purposes.
- (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 New York City 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 \$36.7 million balance was transferred in February 2007 in accordance with the agreement.
- (h) On October 23, 2007, the members of the Authority approved a proposal by the Governor to pay up to \$40 million of Special Fund monies (see note 11) 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.

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- (i) 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. In June 2007, the Conservancy joined the Cultural Institution Retirement System Plan (CIRS Plan), which is an employer-funded private pension, defined benefit plan. During the fiscal year ended October 31, 2007, the Authority paid the Conservancy approximately \$7.3 million for services, which are included in the Authority's operating expenses and contributed approximately \$1.3 million from Conservancy reserves held by the Authority to fully fund the required retroactive service credits for Conservancy employees through October 31, 2006.

**(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.

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- (b) 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 9/11 (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.

On June 27, 2007, approximately 375 additional claims were served upon the Authority and several other defendants in Federal Court. Such claims may be susceptible to dismissal or discontinuance on account of procedural defects. It is not yet possible to evaluate the magnitude of the liability that may arise from these claims. Additional claims stemming from the clean-up efforts following 9/11 may be asserted against the Authority in the future.