



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

Financial Statements

April 30, 2008 and 2007

(With Independent Accountants' Review Report Thereon)

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

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Independent Accountants' Review Report

The Members

Hugh L. Carey Battery Park City Authority:

We have reviewed the accompanying financial statements of Hugh L. Carey Battery Park City Authority (the Authority), a component unit of the State of New York, as of and for the six month periods ended April 30, 2008 and 2007 as listed in the accompanying table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Authority.

A review consists principally of inquiries of Authority personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 2 through 16 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.

Our review of the financial statements were made for the purpose of expressing limited assurance that there are no material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles. The other supplementary information is presented only for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the financial statements, but was compiled from information that is the representation of management, without audit or review and, accordingly, we do not express an opinion or any other form of assurance on such information.

KPMG LLP

September 15, 2008

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Management's Discussion and Analysis

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Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) and the Battery Park City Parks Conservancy (the Conservancy), a blended component unit of the Authority, collectively referred to as "the Organization", as of and for the six-month periods ended April 30, 2008, 2007 and 2006. The basic financial statements, which include the balance sheets, the statements of revenues, expenses, and changes in net assets (deficit), the statements of cash flows, and the notes to the financial statements, provide information about the Organization in accordance with accounting principles generally accepted in the United States of America. All transactions between the Authority and Conservancy have been eliminated. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Comparison of 2008 to 2007 and 2007 to 2006

Financial Highlights – 2008

- 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 in November 2007 totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Approximately \$1.8 million of base rent, \$447 thousand of PILOT, and \$147 thousand in interest payments were recorded as revenues during the six-month period ended April 30, 2008. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which will be owned by the Authority as condominium units. Construction of the buildings began in the spring of 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 April 30, 2008 in accordance with GASB Statement No. 45, the Authority's accrued liability representing postretirement medical benefits for all eligible current and retired employees is \$14.4 million.

During the fiscal year ended October 31, 2007, the Conservancy began participation in the Cultural Institutions Retirement System Pension Plan (CIRS Pension Plan), an employer funded defined benefit plan and the 401(k) Savings Plan (CIRS Savings Plan), a defined contribution plan (see note 15).

- The six-month period ended April 30, 2008 yielded a decrease of approximately \$5.8 million or 5.5% in total operating revenues compared to the six-month period ended April 30, 2007. PILOT revenue totaling approximately \$66.3 million (approximately 66.6% of the Authority's operating revenues for the six-month period ended April 30, 2008), remained relatively stable compared to the six-month period ended April 30, 2007. Base rent increased \$2.6 million primarily due to the recognition of a pro-rata share of upfront lease payments received from Sites 23 and 24, approximately \$1 million, base rents from newly leased sites, approximately \$740 thousand, and scheduled increases in base rents on older leases. Civic

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facilities and other revenues decreased by \$8.6 million primarily due to transaction and administrative payments received on the sale of Site 16/17 residential units of approximately \$2.1 million and an arbitration award received on a lease dispute regarding retroactive commercial retail rents of approximately \$6.6 million during the six-month period ended April 30, 2007. These decreasing factors were offset by normal increases to civic facilities maintenance payments.

- A provision for the transfer to the City of New York (City) of \$41.6 million in excess revenues was charged for the six-month period ended April 30, 2008 (see note 11). Generally, the Authority's net assets decrease with increases in the amount of excess revenues to be provided to the City, which has an adverse effect on the Authority's net asset position.
- At April 30, 2008, the Authority retains approximately \$115 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. In addition, the Authority holds approximately \$27.7 million in the Project Costs Fund to be used for the certain park, street, and other infrastructure improvements and other capital expenditures (see note 8).
- The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation (see note 16 (i)) and is a blended component unit of the Authority. Effective for the six-month period ended April 30, 2007, financial activity for the Conservancy is combined with the Authority's basic financial statements. Such activity is reflected in the accompanying financial statements for the six-month periods ended April 30, 2008 and 2007 (see Other Supplementary Information).
- In February 2008, auctions for Auction Rate Securities (ARS) in the secondary market began to fail intermittently due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (LIBOR) based on the prevailing rating for the bond series. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid February 2008 through April 30, 2008 ranged from a low of 4.438% to a high of 5.486% on the 2003 Series B Bonds and from a low of 4.743% to a high of 6.2360% on the 2003 Series C Bonds (see note 10).

Financial Highlights – 2007

- On October 31, 2006, ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, were signed by the Authority and MP Freedom LLC and MP Liberty LLC, respectively, and placed into escrow (both MP entities are controlled by The Milstein Organization). The lessees had until September 21, 2007 to secure financing for construction of the projects, which is secured by a \$2,787,885 bank letter of credit that will be paid to the Authority as damages if the leases do not take effect. Under the leases, the tenants are required to make upfront lease payments totaling \$56.5 million, no later than September 21, 2007 and are also required to construct at their own expense the core and shell of a community center and ball field maintenance facilities, which will be owned by the Authority. Regular payments of base rent, PILOT and other elements of rent, including a share of the proceeds from the sale of condominium units, will be received by the Authority over the remaining lease term.

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- The six-month period ended April 30, 2007 yielded an increase of approximately \$7 million or 7.1% in total operating revenues compared to the six-month period ended April 30, 2006. PILOT revenue totaling approximately \$66 million (approximately 63% of the Authority's operating revenues), remained relatively stable compared to the six-month period ended April 30, 2006. Base rents decreased \$3.6 million over the same period primarily due to a one time adjustment relating to the recognition period of an upfront lease payment which resulted in additional revenues for the six-month period ended April 30, 2006 of \$4.2 million. Additionally, other revenues increased by \$10.6 million due to transaction and administrative payments received on the sale of residential units of approximately \$2.2 million and an arbitration award on a lease dispute regarding retroactive commercial retail rents of approximately \$6.6 million, as well as, normal increases to civic facilities maintenance payments.
- A provision for the transfer to the City of \$45.5 million in excess revenues was charged for the six-month period ended April 30, 2007.
- At April 30, 2007, the Authority retains approximately \$67.7 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. 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 16(f)). In addition, at April 30, 2007, the Authority holds approximately \$49.7 million in the Project Costs Fund to be used for the certain park, street, and other infrastructure improvements and other capital expenditures (see note 8).

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Summary Schedule of Net Assets

The summary schedule of net assets present the financial position of the Organization at April 30, 2008, 2007 and 2006. Net assets (deficit) are the difference between total assets and total liabilities. A summarized comparison of the Organization's assets, liabilities, and net deficit at April 30, 2008, 2007 and 2006 is as follows:

	<u>2008</u>	<u>April 30 2007</u>	<u>2006</u>	<u>2008 vs 2007</u>	<u>2007 vs 2006</u>
Assets:					
Bank deposits, investments and rents and other receivables	\$ 12,843,627	11,633,223	8,093,869	1,210,404	3,539,354
Bond resolution restricted assets (current and noncurrent)	369,252,470	348,885,321	421,337,069	20,367,149	(72,451,748)
Battery Park City project assets, net	410,746,608	388,941,600	380,220,164	21,805,008	8,721,436
Other current and noncurrent assets	301,174,868	250,034,662	272,745,639	51,140,206	(22,710,977)
Total assets	<u>\$ 1,094,017,573</u>	<u>999,494,806</u>	<u>1,082,396,741</u>	<u>94,522,767</u>	<u>(82,901,935)</u>
Liabilities:					
Current liabilities	\$ 221,564,293	230,553,757	230,838,252	(8,989,464)	(284,495)
Long-term liabilities	1,190,782,200	1,141,399,342	1,132,921,190	49,382,858	8,478,152
Total liabilities	<u>1,412,346,493</u>	<u>1,371,953,099</u>	<u>1,363,759,442</u>	<u>40,393,394</u>	<u>8,193,657</u>
Net assets (deficit):					
Invested in capital assets, net of related debt	5,295,853	7,201,909	15,112,933	(1,906,056)	(7,911,024)
Restricted	367,657,764	263,729,734	314,610,298	103,928,030	(50,880,564)
Unrestricted	(691,282,537)	(643,389,936)	(611,085,932)	(47,892,601)	(32,304,004)
Total net deficit	<u>(318,328,920)</u>	<u>(372,458,293)</u>	<u>(281,362,701)</u>	<u>54,129,373</u>	<u>(91,095,592)</u>
Total liabilities and net deficit	<u>\$ 1,094,017,573</u>	<u>999,494,806</u>	<u>1,082,396,741</u>	<u>94,522,767</u>	<u>(82,901,935)</u>

Assets

2008 vs 2007

As of April 30, 2008, the Organization maintained total assets of approximately \$1.09 billion, approximately \$94.5 million higher than total assets of \$999.5 billion at April 30, 2007.

Bank deposits, investments and rents and other receivables held at April 30, 2008 increased approximately \$1.2 million due to a \$245 thousand increase in rental receivables due to the timing of tenant payments, a \$318 thousand increase in accrued interest on investments and increases in amounts due on other agreements; a \$2.4 million increase relating to rent due from Goldman Sachs; a \$740 thousand increase relating to an arbitration settlement on rental space leased for the Conservancy and a \$341 thousand increase on amounts due

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from the Port Authority of New York and New Jersey. These increases were offset by certain rental income totaling \$2.1 million held in unrestricted investment accounts at April 30, 2007 as opposed to deposited in the 2003 Revenue Bond Resolutions restricted asset accounts at April 30, 2008, a \$567 thousand decrease in accrued Swap receipts due to a decrease in the 30-day LIBOR and a decrease in bank deposits held by the Conservancy due to the timing of disbursements and deposits.

Bond Resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond resolutions, approximately \$369.3 million at April 30, 2008, approximately \$20.4 million higher than the investment fair value of assets held at April 30, 2007, \$348.9 million (see note 8). At April 30, 2008 funds held under the 2003 Revenue Bond resolutions for the designated purposes of paying debt service were approximately \$18.3 million higher than April 30, 2007 primarily due to increased funding requirements. In addition, funds held in the Pledged Revenue Fund (PRF) at April 30, 2008 were approximately \$52.2 million more than funds held at April 30, 2007 and is primarily attributable to transfers of approximately \$213.5 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 of New York and retaining funds in the Joint Purpose Fund. These transfers were offset by deposits of approximately \$265.6 million relating to lease rental collections, Swap transaction receipts from the three counterparties, interest earned on assets held in this fund and interest transferred from a corporate designated fund to a restricted bond resolution account. Approximately \$28.1 million less was held as excess revenues at April 30, 2008 in the Residual Fund for the benefit of the City. Lastly, assets held under the resolution for project infrastructure and certain other asset costs were approximately \$21.9 million lower as compared to April 30, 2007 primarily due to investments in infrastructure and other assets.

2007 vs 2006

As of April 30, 2007, the Organization maintained total assets of approximately \$999.5 million; approximately \$82.9 million lower than the total assets at April 30, 2006, \$1.08 billion.

Bank deposits, investments and rents and other receivables held at April 30, 2007 increased approximately \$3.5 million primarily due to certain rental income totaling \$2.2 million held in unrestricted accounts at April 30, 2007 as opposed to deposited in the 2003 Revenue Bond resolutions restricted asset accounts at April 30, 2006, an increase in rents receivables of approximately \$1.1 million due to the timing of tenant payments and an increase in bank deposits due to the timing of vendor payments offset by a decrease in accrued investment income of \$578 thousand due to higher investment holdings at April 30, 2006.

The Authority's restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond resolutions, approximately \$348.9 million at April 30, 2007 (see note 8), which is approximately \$72.5 million lower than the investment fair value of assets held at April 30, 2006, \$421.3 million. At April 30, 2007 funds held under the 2003 Revenue Bond resolutions for the designated purposes of paying debt service were approximately \$13.1 million higher than April 30, 2006 primarily due to increased funding requirements. An additional \$6.5 million was held as excess revenues at April 30, 2007 in the Residual Fund for the benefit of the City. In addition, funds held in the PRF at April 30, 2007 were approximately \$77.2 million less than funds held at April 30, 2006. The decrease is primarily attributable to transfers to other bond resolution funds, approximately \$306 million, 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.

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These transfers were offset by deposits of approximately \$230 million relating to ground lease payments, Swap transaction receipts from the three counterparties and interest earnings. Lastly, assets held under the resolution for project infrastructure and certain other asset costs were approximately \$14.9 million lower as compared to April 30, 2006.

Project Assets

At April 30, 2008, the Authority's investment in project assets, net of accumulated depreciation was approximately \$410.7 million, an increase of \$21.8 million over the period ended April 30, 2007. 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, three public schools, a public library, and approximately 8,900 residential units (see notes 2, 5, and 6). 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, 2 residential buildings on Site 23 and Site 24 comprising 591 units, as well as 1.8 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26. Construction of a public school on Site 2B is expected to begin in the summer of 2008.

The Authority's project assets include land, site improvements, and a residential building constructed by the Authority on Site 22. Additionally, condo units owned by the Authority in 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 April 30, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>April 30 2007</u>	<u>2006</u>	<u>2008 vs 2007</u>	<u>2007 vs 2006</u>
Land	\$ 83,015,653	83,015,653	83,015,653	—	—
Site improvements	352,953,307	326,782,169	314,801,475	26,171,138	11,980,694
Residential building and condominium units	<u>43,268,009</u>	<u>43,080,997</u>	<u>41,741,252</u>	<u>187,012</u>	<u>1,339,745</u>
	479,236,969	452,878,819	439,558,380	26,358,150	13,320,439
Less accumulated depreciation	<u>68,490,361</u>	<u>63,937,219</u>	<u>59,338,216</u>	<u>(4,553,142)</u>	<u>(4,599,003)</u>
Total Battery Park City project assets	<u>\$ 410,746,608</u>	<u>388,941,600</u>	<u>380,220,164</u>	<u>21,805,008</u>	<u>8,721,436</u>

2008 vs 2007

At April 30, 2008, the increase to Project assets over April 30, 2007 is primarily a result of expenditures of approximately \$21.4 million in site improvements, principally for improvements to the North Cove Marina, park improvements in the north and south neighborhoods, bridge work, costs relating to the build out of parks maintenance facility, as well as other minor capital improvements to infrastructure. Additionally, the Authority acquired \$7.6 million in assets associated with a defaulted lessee during the six-month period ended April 30,

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2008. Offsetting these additions, BPCA retired \$2.9 million in infrastructure assets primarily related to the transfer of a portion of the north neighborhood streets to the City.

2007 vs 2006

At April 30, 2007, the increase to Project assets over April 30, 2006 is primarily a result of expenditures of approximately \$13.3 million in site improvements, principally for a new park in the North Neighborhood, dredging the North Cove Marina, security infrastructure, added condo units, costs relating to the build out of the parks maintenance facility as well as other minor capital improvements to infrastructure (see note 3).

Other Current and Noncurrent Assets

Other current and noncurrent assets at April 30, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>April 30 2007</u>	<u>2006</u>	<u>2008 vs 2007</u>	<u>2007 vs 2006</u>
Residential lease required funds	\$ 10,637,652	7,420,465	7,049,827	3,217,187	370,638
Corporate-designated, escrowed, and OPEB funds	241,879,560	191,820,866	214,300,581	50,058,694	(22,479,715)
Deferred costs, net:					
Bond issuance costs	38,626,485	40,064,960	41,503,534	(1,438,475)	(1,438,574)
Costs of leases	2,990,901	2,611,841	2,527,096	379,060	84,745
Total deferred costs, net	41,617,386	42,676,801	44,030,630	(1,059,415)	(1,353,829)
Other assets	7,040,270	8,116,530	7,364,701	(1,076,260)	751,829
Total other current and noncurrent assets	<u>\$ 301,174,868</u>	<u>250,034,662</u>	<u>272,745,739</u>	<u>51,140,206</u>	<u>(22,711,077)</u>

2008 vs 2007

Total other current and noncurrent assets increased approximately \$51.1 million from \$250 million at April 30, 2007 to \$301.2 million at April 30, 2008.

Residential lease required funds increased \$3.2 million from \$7.4 million at April 30, 2007 to \$10.6 million at April 30, 2008 and primarily relates a \$2.8 million security deposit received from Site 2A in April 2008, coupled with interest earned on all funds held.

Overall, corporate-designated, escrowed and OPEB funds increased approximately \$50.1 million from April 30, 2007. The increase is attributable to additional holdings of approximately \$47.5 million in the Joint Purpose Fund at April 30, 2008 and interest earned on higher balances. These funds are to be spent in a manner and for such purposes as the Authority and the City shall jointly decide (see note 11). A total of approximately \$43.9 million was transferred from the 2003 Revenue Bond Funds in January and February 2008 to the Joint Purpose Fund. Additionally, approximately \$4.8 million was transferred from the corporate fund accounts including \$3.5m to the 2003 Revenue Bond Funds (Residual Fund) held for the benefit of the City and

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approximately \$1.3 million from Authority reserves held on behalf of the Conservancy (see note 16(i)) for the payment of retroactive pension plan benefits for Conservancy employees.

Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Costs of leases increased \$379 thousand primarily due to lease related costs of \$442 thousand incurred in connection with the preparation of Site 2B for development by the New York City School Construction Authority (SCA) offset by amortization for the period. Other assets decreased by \$1.1 million primarily due to depreciation and amortization offset by purchases of scanning software and disaster recovery and emergency facility costs.

2007 vs 2006

Total other current and noncurrent assets decreased approximately \$22.7 million from \$272.7 million at April 30, 2006 to \$250 million at April 30, 2007.

Residential lease required funds increased marginally by approximately \$371 thousand primarily from interest earnings.

Corporate-designated, escrowed and OPEB funds decreased approximately \$22.5 million from April 30, 2006. The decrease is attributable to less holdings in the Joint Purpose Fund, approximately \$24.3 million, and the use of approximately \$4.8 million of working capital reserves split between the dredging project at the marina and the excess revenue transfer to the City. These decreases were offset by interest earnings on 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 \$84.7 thousand. Other assets increased by \$752 thousand primarily due to the purchase of management information systems and related equipment and software with an offsetting reduction of the asset value due to annual depreciation and amortization.

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Liabilities

Total liabilities at April 30, 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>April 30 2007</u>	<u>2006</u>	<u>2008 vs 2007</u>	<u>2007 vs 2006</u>
Current liabilities:					
Accrued interest on bonds	\$ 18,277,860	17,658,351	17,617,184	619,509	41,167
Accounts payable and other liabilities	10,610,927	10,776,478	15,837,483	(165,551)	(5,061,005)
Due to the City of New York	124,671,746	156,895,000	155,507,489	(32,223,254)	1,387,511
Deferred revenue	31,623,677	28,477,553	26,319,976	3,146,124	2,157,577
Security and other deposits	18,435,083	16,746,375	15,556,121	1,688,708	1,190,254
2003 Revenue Bonds	17,945,000	—	—	17,945,000	—
Total current liabilities	<u>221,564,293</u>	<u>230,553,757</u>	<u>230,838,253</u>	<u>(8,989,464)</u>	<u>(284,496)</u>
Noncurrent liabilities:					
Deferred revenue	150,828,079	101,718,929	94,230,303	49,109,150	7,488,626
Security and other deposits	11,442,923	8,225,772	7,838,874	3,217,151	386,898
Other post employment benefits	14,398,928	—	—	14,398,928	—
Bonds outstanding:					
2003 Revenue Bonds	1,045,070,915	1,064,189,653	1,065,363,391	(19,118,738)	(1,173,738)
Unamortized loss on extinguishment	(30,958,645)	(32,735,012)	(34,511,378)	1,776,367	1,776,366
Total noncurrent liabilities	<u>1,190,782,200</u>	<u>1,141,399,342</u>	<u>1,132,921,190</u>	<u>49,382,858</u>	<u>8,478,152</u>
Total liabilities	<u>\$ 1,412,346,493</u>	<u>1,371,953,099</u>	<u>1,363,759,443</u>	<u>40,393,394</u>	<u>8,193,656</u>

2008 vs 2007

The Organization's total liabilities increased approximately \$40.4 million from \$1.37 billion at April 30, 2007 to \$1.41 billion at April 30, 2008.

Current liabilities largely comprise amounts due to the City, accrued interest on bonds, the current portion of deferred revenue, security and other deposits, and outstanding debt, and accounts payable and accrued expenses. The \$9 million decrease in current liabilities is primarily due to amounts due to the City at April 30, 2008 of \$124.7 million; approximately \$32.2 million lower than the April 30, 2007 balance of \$156.9 million. The balance at April 30, 2008 includes \$83.1 million in excess revenues relating to the prior fiscal year ended October 31, 2007, which was paid in June 2008, and an accrual for the six-month period ended April 30, 2008, \$41.6 million. Excess revenues for the fiscal period ended October 31, 2006, \$111.4 million, were significantly higher. Additionally, accrued interest payable on bonds increased \$620 thousand from \$17.7 million at April 30, 2007 to \$18.3 million at April 30, 2008 and is primarily due to higher interest rates paid on variable debt (see noted 10). Accounts payable and other liabilities decreased \$166 thousand from \$10.8 million at April 30, 2007 to \$10.6 million at April 30, 2008 primarily due to the timing of vendor payments (see note 13) and paybacks to certain condominium tenants as part of a legal settlement.

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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 on the balance of the 2003 Revenue Bonds outstanding is due to amortization of the net bond premium. A \$17.9 million principal payment on the 2003 Series A and Series C Bonds, due November 1, 2008, is recorded as a current liability at April 30, 2008. 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 April 30, 2008.

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 \$13.8 million net accrued postretirement medical benefit liability for all eligible current and retired employees was recorded during the fiscal period ended October 31, 2007. The annual required OPEB obligation was increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the six-month period ended April 30, 2008 (see note 15) resulting in an accrued liability balance of \$14.4 million as of April 30, 2008.

In addition, as of April 30, 2008, total deferred revenue increased by \$52.7 million over April 30, 2007, primarily due to residential lease upfront payments received from Sites 23 and 24, \$56.5 million and Site 2A, \$1.4 million, offset by revenue recognition on these and other upfront lease payments received during prior periods.

Security and other deposits increased \$4.9 million to \$29.9 million at April 30, 2008 and relates to a \$2.8 million security deposit received from Site 2A in April 2008 in accordance with the lease terms, \$1.6m received from the SCA to supplement costs incurred by the Authority to prepare Site 2B for the construction of a school, and interest earnings on these deposits and other escrowed funds held by the Authority, offset by \$442k in payments for the Site 2B relocation.

2007 vs 2006

The Organization's total liabilities increased approximately \$8.2 million from \$1.36 billion at April 30, 2006 to \$1.37 billion at April 30, 2007.

Current liabilities largely comprise amounts due to the City, accrued interest on bonds, the current portion of deferred revenue and security and other deposits, and accounts payable and accrued expenses. The \$284 thousand decrease in current liabilities is in part due to amounts due to the City of \$156.9 million at April 30, 2007, \$1.4 million more than the April 30, 2006 balance of \$155.5 million. The balance at April 30, 2007 includes \$111.4 million in excess revenues from the prior fiscal year ended October 31, 2006, which was paid in June 2007, and an accrual for the six-month period ended April 30, 2007 of \$45.5 million. Additionally, accrued interest payable on bonds totaled \$17.6 million as of April 30, 2007, or approximately \$41 thousand more than the \$17.6 million interest payable at April 30, 2006. Accounts payable and other liabilities decreased \$5.1 million from \$15.8 million at April 30, 2006 to \$10.8 million at April 30, 2007 primarily due to the timing of vendor payments.

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A significant portion of noncurrent liabilities relate to the Authority's outstanding long-term debt. The \$1.2 million decrease on the balance of the 2003 Revenue Bonds outstanding 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 April 30, 2007.

In addition, as of April 30, 2007, total deferred revenue increased by \$9.6 million over April 30, 2006, primarily due to residential lease upfront payments received from Site 3 and Site 2A, \$7.5 million and \$3.35 million, respectively, offset by revenue recognition on these and other upfront lease payments received during prior periods.

Net Assets (Deficit)

2008 vs 2007

The net deficits at April 30, 2008 and 2007 were \$318.3 million and \$372.5 million, respectively. Net assets invested in capital assets, net of related debt, was \$5.3 million and \$7.2 million at April 30, 2008 and 2007, respectively. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Organization's \$367.7 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under Bond Resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling approximately \$691.3 million at April 30, 2008 resulting primarily from debt issued for noncapital purposes, approximately \$580 million, and upfront lease payments and deferred PILOT revenue, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

The change in total net assets from April 30, 2007 represents a positive change in the deficit position of approximately \$54.1 million from \$372.5 million at April 30, 2007 to \$318.3 million at April 30, 2008.

2007 vs 2006

The net deficits at April 30, 2007 and 2006 were \$372.5 million and \$281.4 million, respectively. Net assets invested in capital assets, net of related debt, was \$7.2 million at April 30, 2007 and \$15.1 million at April 30, 2006. As of April 30, 2007, the Organization's \$263.7 million of restricted net assets represent resources that are subject to various external restrictions on how they may be used. The remaining balance is classified as an unrestricted deficit totaling approximately \$643.4 million.

The change in total net assets from April 30, 2006 is a negative change in the deficit position of approximately \$91.1 million from \$281.4 million at April 30, 2006 to \$372.5 million at April 30, 2007.

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

Below is a summary of the Organization's revenues, expenses, and changes in net deficit for the six-month periods ended April 30, 2008, 2007 and 2006:

	<u>2008</u>	<u>April 30 2007</u>	<u>2006</u>	<u>2008 vs 2007</u>	<u>2007 vs 2006</u>
Operating revenues:					
Revenues from ground leases:					
Base rent	\$ 28,098,041	25,544,822	29,148,702	2,553,219	(3,603,880)
Supplemental rent	281,273	264,631	298,155	16,642	(33,524)
Payments in lieu of real estate taxes (PILOT)	66,307,613	66,070,365	66,004,457	237,248	65,908
Civic facilities payments and other	5,105,908	13,638,913	2,885,311	(8,533,005)	10,753,602
Total operating revenues	<u>99,792,835</u>	<u>105,518,731</u>	<u>98,336,625</u>	<u>(5,725,896)</u>	<u>7,182,106</u>
Operating expenses:					
Wages and related benefits	6,562,025	6,561,409	3,372,962	616	3,188,447
OPEB	652,173	—	—	652,173	—
Other operating and administrative expenses	8,424,801	8,517,341	12,054,958	(92,540)	(3,537,617)
Depreciation and amortization	4,105,527	4,042,482	3,968,780	63,045	73,702
Total operating expenses	<u>19,744,526</u>	<u>19,121,232</u>	<u>19,396,700</u>	<u>623,294</u>	<u>(275,468)</u>
Operating income	<u>80,048,309</u>	<u>86,397,499</u>	<u>78,939,925</u>	<u>(6,349,190)</u>	<u>7,457,574</u>
Nonoperating revenues (expenses):					
Investment and other income	15,534,259	12,789,815	8,587,049	2,744,444	4,202,766
Other revenue	6,706,015	340,150	—	6,365,865	340,150
Interest expense, net	(26,176,027)	(21,272,478)	(21,004,086)	(4,903,549)	(268,392)
Provision for transfer to the City of New York	(41,571,746)	(45,500,000)	(48,307,489)	3,928,254	2,807,489
Total nonoperating expenses, net	<u>(45,507,499)</u>	<u>(53,642,513)</u>	<u>(60,724,526)</u>	<u>8,135,014</u>	<u>7,082,013</u>
Change in net assets	34,540,810	32,754,986	18,215,399	1,785,824	14,539,587
Net deficit, beginning of period	<u>(352,869,730)</u>	<u>(405,213,279)</u>	<u>(299,578,100)</u>	<u>52,343,549</u>	<u>(105,635,179)</u>
Net deficit, ending of period	<u>\$ (318,328,920)</u>	<u>(372,458,293)</u>	<u>(281,362,701)</u>	<u>54,129,373</u>	<u>(91,095,592)</u>

Operating Revenues – Overall operating revenues for the six-month period ended April 30, 2008 totaled \$99.8 million, approximately \$5.7 million lower than the six-month period ended April 30, 2007, \$105.5 million. Lease revenues consist primarily of base (land) rent and PILOT from long-term leaseholds. The \$5.7 million decrease in overall operating revenues is primarily due to a \$8.5 million decrease in civic facilities and other revenues; due to transaction and administrative payments received on the sale of residential units of approximately \$2.2 million and the receipt of a \$6.6 million arbitration award on a lease dispute relating to

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retroactive commercial retail rents during the six-month period April 30, 2007; offset by normal annual increases to civic facilities maintenance payments and Conservancy fees. The overall decrease is offset by a \$2.6 million increase in base rent revenues primarily due to the recognition of a pro-rata share of upfront lease payments received from Site 23 and 24, approximately \$1 million, base rents from newly leased sites of approximately \$1 million, and scheduled increases in base rents on other leases. PILOT revenue totaling approximately \$66.3 million (approximately 66.5% and 62.6% of the total operating revenues for the six-month periods ended April 30, 2008 and 2007, respectively), remained relatively stable compared to the six-month period ended April 30, 2007.

Overall operating revenues for the six-month period ended April 30, 2007 totaled \$105.5 million, approximately \$7.2 million higher than the six-month period ended April 30, 2006, \$98.3 million. The increase is primarily due to a \$10.8 million increase in civic facilities and other revenues due to transaction and administrative payments received on the sale of residential units of approximately \$2.2 million, the receipt of a \$6.6 million arbitration award on a lease dispute relating to retroactive commercial retail rents, and normal annual increases to civic facilities maintenance payments. The overall increase is offset by a \$3.6 million decrease in base rent revenues due to a one-time adjustment to the recognition period of deferred revenue which resulted in an additional \$4.3 million recognized during the six-month period ended April 30, 2006 offset by base rent revenue recognized during the six-month period ended April 30, 2007 on new leases. PILOT revenues (approximately 62.6% of total operating revenues) remained relatively stable at \$66.1 million.

Operating Expenses – Operating expenses totaled approximately \$19.7 million for the six-month period ended April 30, 2008, representing a \$623 thousand increase compared to the six-month period ended April 30, 2007. The expenses include: wages and related benefits; other postemployment benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, and promotional; planning/design expenditures; and depreciation and amortization. Wages and related benefits totaling \$6.6 million were commensurate with the prior six-month period ended April 30, 2007. OPEB expenses increased approximately \$652 thousand and represent a pro-rata share of interest and normal costs for postemployment medical benefits for all eligible current employees in accordance with GASB Statement No. 45 (see note 15). Other operating and administrative expenses decreased approximately \$93 thousand and primarily relates to a decrease in rental space costs resulting from an August 2007 arbitration settlement, the timing of payments for Authority sponsorships, and a decrease in costs associated with outside legal counsel. These decreases were offset by additional funding requirements for the Conservancy and an increase in costs for contractual agreements, specifically the Port Authority Ferry Terminal. Depreciation and amortization expenses recorded for the six-month period ended April 30, 2008 of approximately \$4.1 million remained relatively stable.

Operating expenses totaled approximately \$19.1 million for the six-month period ended April 30, 2007, representing a \$275.5 thousand decrease compared to the six-month period ended April 30, 2006. The expenses include: wages and related benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, and promotional; planning/design expenditures; and depreciation and amortization. Wages and related benefits increased \$3.2 million from \$3.4 million at April 30, 2006 to \$6.6 million at April 30, 2007 and other operating and administrative expenses decreased approximately \$3.5 million from \$12.1 million at April 30, 2006 to \$8.5 million at April 30, 2007. The primary factor causing these fluctuations is a reclassification of approximately \$3 million from other operating and administrative expenses to wages and related benefits for 2007 amounts which were made to conform to 2008 presentation. Other operating and administrative expenses decreased approximately \$3.5 million due to generally lower

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expenditures, approximately \$430 thousand, coupled with a \$3 million decrease relating to the Authority's consolidation of the Conservancy (see note 16 (i)). Depreciation and amortization expenses recorded for the six-month period ended April 30, 2007 of approximately \$4 million remained relatively stable.

Nonoperating Revenues (Expenses) – Total nonoperating expenses, net, of approximately \$45.5 million for the six-month period ended April 30, 2008 were approximately \$8.1 million lower than the six-month period ended April 30, 2007, \$53.6 million. A provision for a transfer to the City of \$41.6 million in excess revenues was charged for the six-month period ended April 30, 2008, a decrease of approximately \$3.9 million from the six-month period ended April 30, 2007. Interest earnings and other income increased by \$2.7 million primarily due to positive adjustments on the market value of investments, approximately \$3.3 million. Other revenue increased \$6.4 million and primarily relates to the transfer of assets to the Authority associated with a defaulted lessee for the north cove marina, \$7.6 million, offset by a \$1.2 million net transfer of north neighborhood streets to the City during the six month period ended April 30, 2008. Net interest expense related to outstanding bonds increased \$4.9 million compared to the six-month period ended April 30, 2008; \$3.1 million resulting from higher interest rates paid on the 2003 variable-rate Revenue Bonds and \$1.8 million from lower interest rates earned on the six interest rate exchange agreements entered into in 2003.

Total nonoperating expenses, net, of approximately \$53.6 million for the six-month period ended April 30, 2007 were approximately \$7.1 million lower than nonoperating expenses for the six-month period ended April 30, 2006, \$60.7 million. A provision for a transfer to the City of \$45.5 million in excess revenues was charged for the six-month period ended April 30, 2007, a decrease of approximately \$2.8 million from the six-month period ended April 30, 2006. Interest earnings and other income increased by \$4.2 million primarily due to significant gains on the market value of investments, approximately \$4.8 million. Interest expense related to outstanding bonds increased \$268 thousand for the six-month period ended April 30, 2007 due to higher interest rates paid on the 2003 variable rate Revenue Bonds outstanding, offset by higher interest rates earned on the six interest rate exchange agreements.

Change in Net Assets – The total net deficit at April 30, 2008 was \$318.3 million representing a decrease in the deficit of approximately \$54 million over April 30, 2007, \$373 million, as a result of the changes in revenues and expenses.

The total net deficit at April 30, 2007 was \$372.5 million or a decrease in the deficit of approximately \$91.1 million over April 30, 2006, as a result of the changes in revenues and expenses.

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Other Information

Debt Administration – At April 30, 2008, 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 and \$635 million of junior lien debt obligations:

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

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

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

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Balance Sheets

April 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Bank deposits (note 3)	\$ 154,258	562,304
Investments (note 3)	364,778	2,486,214
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of \$117,643 in 2008 and \$113,667 in 2007) (note 12)	12,324,591	8,584,705
2003 Revenue Bond Resolution Funds (notes 3, 8, 9 and 10)	154,570,541	162,699,674
Corporate-designated, escrowed and OPEB funds (note 3)	17,361,263	16,743,033
Total current assets	<u>184,775,431</u>	<u>191,075,930</u>
Noncurrent assets:		
Restricted assets:		
2003 Revenue Bond Resolution Funds (notes 3, 8, 9 and 10)	214,681,929	186,185,647
Residential lease required funds (note 3)	10,637,652	7,420,465
Corporate-designated, escrowed and OPEB funds (note 3)	224,518,297	175,077,833
Deferred costs (note 3):		
Bond issuance costs, less accumulated amortization of \$12,136,562 in 2008 and \$10,698,088 in 2007	38,626,485	40,064,960
Costs of leases, less accumulated amortization of \$788,643 in 2008 and \$725,454 in 2007	2,990,901	2,611,841
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, and 4)	410,746,608	388,941,600
Other assets	7,040,270	8,116,530
Total noncurrent assets	<u>909,242,142</u>	<u>808,418,876</u>
Total assets	<u>\$ 1,094,017,573</u>	<u>999,494,806</u>

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Balance Sheets

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Liabilities and Net Deficit	2008	2007
Current liabilities:		
Accrued interest on bonds	\$ 18,277,860	17,658,351
Accounts payable and other liabilities (note 13)	10,610,927	10,776,478
Due to the City of New York (note 11)	124,671,746	156,895,000
Deferred revenue (note 3):		
PILOT revenue	21,633,342	21,544,544
Base rent and other revenue	9,990,335	6,933,009
Securities and other deposits	18,435,083	16,746,375
2003 Revenue Bonds	17,945,000	—
Total current liabilities	221,564,293	230,553,757
Noncurrent liabilities:		
Deferred revenue (note 3):		
Base rent and other revenue	150,828,079	101,718,929
Security and other deposits	11,442,923	8,225,772
OPEB (note 15)	14,398,928	—
Bonds outstanding (notes 9, 10, and 11):		
2003 Revenue Bonds, less accumulated amortization of \$5,330,056 in 2008 and \$4,156,319 in 2007	1,045,070,915	1,064,189,653
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(30,958,645)	(32,735,012)
Total noncurrent liabilities	1,190,782,200	1,141,399,342
Total liabilities	1,412,346,493	1,371,953,099
Net assets (deficit) (note 3):		
Invested in capital assets, net of related debt	5,295,853	7,201,909
Restricted:		
Debt service	144,279,311	126,483,679
Under bond resolutions and other agreements	223,378,453	137,246,055
Unrestricted deficit	(691,282,537)	(643,389,936)
Total net deficit	(318,328,920)	(372,458,293)
Total liabilities and net deficit	\$ 1,094,017,573	999,494,806

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

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

Six-month periods ended April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Revenues from ground leases (notes 5, 6, and 7):		
Base rent	\$ 28,098,041	25,544,822
Supplemental rent	281,273	264,631
Payments in lieu of real estate taxes	66,307,613	66,070,365
Civic facilities payments and other	5,105,908	13,638,913
Total operating revenues	<u>99,792,835</u>	<u>105,518,731</u>
Operating expenses:		
Wages and related benefits	6,562,025	6,561,409
OPEB (note 15)	652,173	—
Other operating and administrative expenses	8,424,801	8,517,341
Depreciation of project assets	2,571,300	2,316,909
Other depreciation and amortization	1,534,227	1,725,573
Total operating expenses	<u>19,744,526</u>	<u>19,121,232</u>
Operating income	<u>80,048,309</u>	<u>86,397,499</u>
Nonoperating revenues (expenses):		
Investment income on funds relating to:		
2003 Revenue Bonds (see note 10)	2,192,829	1,977,742
Corporate-designated, escrowed and OPEB funds	2,282,271	2,246,518
Net increase in the fair value of investments	11,059,159	8,565,555
Other revenue	6,706,015	340,150
Interest expense relating to:		
2003 Swap agreements – net interest (expense) income	(1,746,795)	57,559
2003 Revenue Bonds (note 10)	(23,541,049)	(20,441,854)
Loss from extinguishment	(888,183)	(888,183)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 11)	(41,571,746)	(45,500,000)
Total nonoperating expenses	<u>(45,507,499)</u>	<u>(53,642,513)</u>
Change in net assets	34,540,810	32,754,986
Net deficit, beginning of period	<u>(352,869,730)</u>	<u>(405,213,279)</u>
Net deficit, end of period	<u>\$ (318,328,920)</u>	<u>(372,458,293)</u>

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

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Statements of Cash Flows

Six-month periods ended April 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 154,398,627	104,409,457
Miscellaneous receipts	639,394	472,340
Total cash receipts from operating activities	155,038,021	104,881,797
Cash payments for:		
Salaries and benefits	(6,572,809)	(6,239,262)
Services and supplies	(6,242,031)	(6,119,764)
Total cash payments from operating activities	(12,814,840)	(12,359,026)
Net cash provided by operating activities	142,223,181	92,522,771
Cash flows from noncapital financing activities:		
Goldman Sachs payment for Battery Park City Library	(83,381)	(114,325)
NYC School Construction Authority receipt	1,640,829	—
Payment to the NYC School Construction Authority	(884,500)	—
Payment from Millenium (Site 2A) – Site security deposit	2,832,476	—
Payment to the NYC Housing Trust Fund	—	(36,651,610)
Net cash provided by (used in) noncapital financing activities	3,505,424	(36,765,935)
Cash flows from capital and related financing activities:		
Capital asset expenditures	(102,378)	(307,081)
Development costs – site improvements and construction	(12,973,758)	(5,030,517)
Defeasance escrow funds	—	343,492
Auction fees for variable debt	(801,354)	(801,875)
Swap payment made on the 2003 Swap agreement	(6,904,000)	(6,904,000)
Swap interest payments received on the 2003 Swap agreement	5,718,657	7,000,402
Interest paid on 2003 Senior Revenue Bonds	(9,927,899)	(9,927,899)
Interest paid on 2003 Junior Revenue Bonds	(12,937,017)	(10,357,303)
Net cash used in capital and related financing activities	(37,927,749)	(25,984,781)
Cash flows from investing activities:		
Interest and realized gains received on investment securities	10,935,109	12,059,962
Fair value adjustment short-term investments	136,764	1,277,976
Redemptions and sales of investment securities	247,514,880	135,414,881
Purchases of investment securities	(471,001,969)	(156,757,823)
Net cash used in investing activities	(212,415,216)	(8,005,004)
(Decrease) increase in cash and cash equivalents	(104,614,360)	21,767,051
Cash and cash equivalents, beginning of period	249,772,309	261,374,138
Cash and cash equivalents, end of period	\$ 145,157,949	283,141,189

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Statements of Cash Flows

Six-month periods ended April 30, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 80,048,309	86,397,499
Adjustments to reconcile operating income to net cash provided by operating activities:		
Bad debt expense	3,975	—
Depreciation and amortization	4,105,527	4,042,482
Changes in operating assets and liabilities:		
Decrease (increase) in rents and other receivables	1,555,015	(1,399,715)
Increase in other assets	(500,595)	(783,758)
Increase in accounts payable and other liabilities	2,874,901	2,766,867
Increase in deferred revenue	53,589,332	1,499,396
Increase in OPEB	546,717	—
Net cash provided by operating activities	\$ 142,223,181	92,522,771
Reconciliation to cash and cash equivalents, end of period:		
Bank deposits	\$ 154,258	562,304
Cash and cash equivalents (note 3)	6,347,218	6,276,275
Investments with less than 91-day maturities (note 3)	138,656,473	276,302,610
Cash and cash equivalents, end of period	\$ 145,157,949	283,141,189

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

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Notes to Financial Statements

April 30, 2008 and 2007

(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 accounting purposes, the Authority is a component unit of the State and is included in its basic financial statements. The Authority has been doing business as the Hugh L. Carey Battery Park City Authority since 1999. The Battery Park City Parks Conservancy (the Conservancy) was incorporated on December 2, 1987 as a New York not-for-profit corporation and is a blended component unit of the Authority under the guidance provided in Governmental Accounting Standards Board (GASB) Statements 14 and 39 and is included in its basic financial statements (see note 16(i)) beginning with the six-month period ended April 30, 2007. Collectively, the Authority and the Conservancy are referred to as "the Organization".

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

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

(2) Status of Project

The Project consists of approximately 92 acres of landfill created, owned, and operated by the Authority (see note 4). The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 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, 2 residential buildings on Site 23 and Site 24 comprising 591 units, as well as the 1.8 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26. Construction of a school on Site 2B is expected to begin in the summer of 2008. 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 designated for development.

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(3) Summary of Significant Accounting Policies

Financial Reporting

The Organization follows U.S. generally accepted accounting principles as promulgated by GASB.

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

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.

Project Assets

Costs incurred by the Authority in developing the Project as of April 30, 2008 and 2007 are capitalized as project assets and classified as follows:

	Balance at October 31, 2007	Additions	Retirements	Balance at April 30, 2008
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	334,671,507	20,802,978	(2,521,178)	352,953,307
Residential building and condominiums	43,268,009	—	—	43,268,009
Total project assets	460,955,169	20,802,978	(2,521,178)	479,236,969
Less accumulated depreciation:				
Site improvements	58,780,470	2,152,127	(429,000)	60,503,597
Residential building and condominiums	7,567,591	419,173	—	7,986,764
Total accumulated depreciation	66,348,061	2,571,300	(429,000)	68,490,361
Net project assets	\$ 394,607,108	18,231,678	(2,092,178)	410,746,608

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	Balance at October 31, 2006	Additions	Retirements	Balance at April 30, 2007
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	320,540,142	6,242,027	—	326,782,169
Residential building and condominiums	43,080,997	—	—	43,080,997
Total project assets	<u>446,636,792</u>	<u>6,242,027</u>	<u>—</u>	<u>452,878,819</u>
Less accumulated depreciation:				
Site improvements	54,895,362	1,896,341	—	56,791,703
Residential building and condominiums	6,724,948	420,568	—	7,145,516
Total accumulated depreciation	<u>61,620,310</u>	<u>2,316,909</u>	<u>—</u>	<u>63,937,219</u>
Net project assets	<u>\$ 385,016,482</u>	<u>3,925,118</u>	<u>—</u>	<u>388,941,600</u>

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

Revenue from Ground Leases

Revenue from ground leases is recognized as income as such amounts become receivable under the provisions of each lease, except that PILOT payments received in advance of the period to which they apply are deferred and recognized as income during future periods. Given the nature of the Organization's operations, revenue from ground leases and related fees and agreements is considered operating revenue. All other revenues are considered nonoperating. In accordance with the lease terms, the Authority received upfront lease payments in fiscal periods prior to 2008 of \$42 million, \$60 million, \$4.75 million and \$11.5 million from residential buildings on Site 22, Site 16/17, Site 2A and Site 3, respectively. Additionally, the Authority received \$22.5 million and \$33.9 million from Site 23 and 24, respectively, during the six-month period ended April 30, 2008. 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, which was paid in June 2007 and is due to be paid to the Authority in December 2009 subject to the fulfillment of certain

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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 deferred revenue in current and noncurrent liabilities.

Investments and Deposits

The Organization carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Organization's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority's investments in securities are held by the Authority's financial institutions in the Authority's name.

Total investments and deposits held by the Organization at April 30, 2008 and 2007 included within the balance sheet accounts: investments, corporate-designated, escrowed and postemployment benefit funds, bond resolution funds (see note 8), and residential lease required funds are as follows:

	April 30, 2008			April 30, 2007		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	\$ 30,762,333	34,945,621	5.83	45,766,251	47,809,530	4.51
Commercial paper	133,947,485	134,411,110	0.14	174,582,210	175,499,617	0.13
Federal agency securities	394,658,359	398,641,033	0.83	264,014,339	265,317,600	0.77
Federal agency mortgage backed securities	43,693,525	43,759,478	3.09	51,358,631	50,479,844	2.78
Municipal bonds	4,030,000	4,030,000	0.02	5,230,000	5,230,000	0.02
Total investments	607,091,702	615,787,242	1.12	540,951,431	544,336,591	1.08
Cash and cash equivalents	6,347,218	6,347,218		6,276,275	6,276,275	
Total investments and deposits	\$ 613,438,920	622,134,460		547,227,706	550,612,866	

(a) Portfolio weighted average effective duration

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

The Organizational permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, Ginnie Mae securities); (ii) notes, bonds, debentures, and mortgages of U.S. Government-sponsored agencies provided that its obligations receive the highest credit rating; (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days provided that such obligations receive the highest rating of two independent rating services (commercial paper) which as of April 30, 2008 were A1/P1; (iv) municipal bonds issued by

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New York authorities and currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

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

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

Corporate-designated, escrowed and OPEB funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the Special Fund (see note 11), project contingency reserves, restoration reserves, insurance reserves, and arbitrage reserve.

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

The Conservancy maintains its cash in bank deposits and Certificates of Deposits, which are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$100,000. All cash balances are placed into overnight interest bearing accounts.

Net Assets

The Organization'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 invested in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deferred Costs

Bond issuance costs are amortized by the straight-line method over the remaining period to maturity of the bonds. Unamortized bond issuance costs relating to refunded debt are accounted for as part of the carrying amount of such debt. Unreimbursed costs, primarily legal, incurred by the Authority in entering into leases have been deferred and are being amortized by the straight-line method over the term of the leases.

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Statements of Cash Flows

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

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 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 15).

Reclassifications

Certain 2007 amounts were reclassified to conform with the 2008 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, and other indebtedness incurred by the Authority, or for which the Authority's revenues have been pledged, have been repaid or defeased; and (b) satisfaction or provision for payment of its contractual obligations and other contingent liabilities. The City may provide for repayment or defeasance of indebtedness incurred by the Authority under its various bond resolutions. As of April 30, 2008, the City had not expressed its intent regarding its right to reacquire the Project site.

(5) Commercial Development

In 1981, the Authority and Olympia & York Battery Park Company (O&Y), an affiliate of Olympia & York Development Limited, entered into a lease pursuant to which O&Y constructed four buildings, consisting of approximately 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.

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As of April 30, 2008, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$1.066 billion over the lease terms in the following annual amounts: (i) base rent of \$17,000,000 per annum from 2009 through 2069 and (ii) additional base rent of \$5,561,220 payable by the BFP-affiliated lessees (2000 to 2014), and an additional \$3,106,674 payable by American Express (2000 to 2009) (see note 7). 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 the New York City Economic Development Corporation, the City, and the New York State Urban Development Corporation (doing business as the Empire State Development Corporation) for the development of a 500,000 square feet trading facility and office building complex to be located on Site 15. The Authority has constructed and paid for certain utility connections to the Project. The lease provides that, commencing on the occupancy date and continuing for a period of 20 years, the rent per annum shall be \$1 for the trading portion of the building and \$1,000,000 for the office portion for the first 7 years of occupancy, \$1,500,000 for years 8 through 13, and \$2,000,000 for the remainder of the 20-year period. The building was completed and occupied in July 1997. The NYMEX lease provides for an abatement program for PILOT payments for portions of the exchange project.

In 1998, a lease was signed for the development of a 463-room luxury hotel and cinema complex (approximately 600,000 square feet) north of the WFC (the north neighborhood). In addition, in January 2001, a lease was signed for the development of a luxury hotel (approximately 278,000 square feet) 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 which are contingent based on Goldman's employment and headquarters commitments to New York 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 to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. For the six-month period ended April 30, 2008, approximately \$83.4 thousand was disbursed to the NYC Public Library by the Authority.

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(6) Residential and Other Development

In 1980, the Authority entered into a lease with a limited-profit housing company (the Housing Company), which constructed an apartment complex consisting of 1,712 rental apartment units (the Gateway Project). In addition to the Gateway Project, the Authority entered into leases in the south 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 in the south neighborhood was designated as a public school. In the north neighborhood, 8 buildings consisting of 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. The first lease appraisal date is in April 2009. For lease years subsequent to the first appraisal date, the leases provide for base rent payments, subject to limitations, based upon a percentage of the fair market value of the land, but generally not less than an amount in excess of the highest base rent payable for any lease year ending prior to the first appraisal date. With respect to lease years subsequent to any other reappraisal dates, base rent may not be less than an amount in excess of base rent payable for the lease year immediately prior thereto. Reappraisal dates occur every 15 years, commencing on the fifteenth anniversary of the first appraisal date.

Annual PILOT is also required to be paid to the Authority during the term of these leases. PILOT is a lease payment by the tenants of each lease to the Authority in lieu of paying real property taxes to the City. PILOT is based on the assessed value of the premises as established by the City and the tax rate then applicable to similar classes of real property located in the borough of Manhattan. Many leases provide for an abatement equivalent to the real estate tax abatements provided for in the State's Real Property Tax Law, and are either 10 or 20 years in duration. Abatements for 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, and only to the extent, the PILOT payments are less than the minimum specified in each lease (see note 7).

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

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

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

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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 \$1.8 million of base rent, \$447 thousand of PILOT, and \$147 thousand in interest payments were recorded as revenues during the six-month period ended April 30, 2008. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facilities, which will be owned by the Authority as condominium units. Construction of the buildings began in the spring of 2008.

(7) Future Minimum Lease Revenue

The future minimum base rent and other minimum lease payments (including supplemental rent, as applicable, through the first appraisal date (see note 6)) to be received under the ground leases during each of the Authority's five fiscal years ending from October 31, 2009 through 2013 and through the end of the lease term (thereafter), are as follows (in 000's):

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>	<u>Total</u>
Commercial development:							
Base rent	\$ 27,155	24,743	25,098	25,114	25,130	1,245,266	1,372,506
Residential developments:							
Gateway project base rent	305	305	305	305	305	8,145	9,670
S. Res. Neighborhood:							
Base rent	13,129	13,466	14,490	17,218	17,754	1,340,080	1,416,137
Other minimum payments	12,620	8,242	7,373	2,049	—	—	30,284
Subtotal S. Res.	<u>25,749</u>	<u>21,708</u>	<u>21,863</u>	<u>19,267</u>	<u>17,754</u>	<u>1,340,080</u>	<u>1,446,421</u>
N. Res. Neighborhood:							
Base rent	3,466	3,546	3,654	3,706	3,760	374,817	392,949
Other minimum payments	4,092	4,148	4,203	4,457	4,810	41,903	63,613
Subtotal N. Res.	<u>7,558</u>	<u>7,694</u>	<u>7,857</u>	<u>8,163</u>	<u>8,570</u>	<u>416,720</u>	<u>456,562</u>
Total	<u>\$ 60,767</u>	<u>54,450</u>	<u>55,123</u>	<u>52,849</u>	<u>51,759</u>	<u>3,010,211</u>	<u>3,285,159</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 fully occupied are not included. Revenues to be paid on a percentage basis and other like contingent payments are also excluded from the above tabulation.

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(8) 2003 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 (see note 11) and held by trustees, is as follows at April 30, 2008 and 2007:

	2003 Revenue Bonds			
	General Bond Resolution	Senior Bonds	Junior Bonds	Total 2003 Bonds
April 30, 2008				
Reserve Fund	\$ 77,028,435	—	—	77,028,435
Project Operating Fund	8,469,600	—	—	8,469,600
Debt Service Funds	—	37,386,055	47,427,519	84,813,574
Residual Fund	88,236,406	—	—	88,236,406
Project Costs Fund	27,749,667	—	—	27,749,667
Pledged Revenue Fund	82,954,788	—	—	82,954,788
	<u>\$ 284,438,896</u>	<u>37,386,055</u>	<u>47,427,519</u>	<u>369,252,470</u>

	2003 Revenue Bonds			
	General Bond Resolution	Senior Bonds	Junior Bonds	Total Bonds
April 30, 2007				
Reserve Fund	\$ 70,683,548	—	—	70,683,548
Project Operating Fund	8,540,330	—	—	8,540,330
Debt Service Funds	—	21,905,037	50,980,159	72,885,196
Residual Fund	116,380,537	—	—	116,380,537
Project Costs Fund	49,672,500	—	—	49,672,500
Pledged Revenue Fund	30,723,210	—	—	30,723,210
	<u>\$ 276,000,125</u>	<u>21,905,037</u>	<u>50,980,159</u>	<u>348,885,321</u>

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, and 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.

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

The Act, as amended, authorizes the Authority to issue bonds and notes in amounts not to exceed: (a) \$300 million outstanding at any one time for the development of the Project; (b) another \$150 million for the purpose of financing capital costs in connection with development of the Project area, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (c) \$400 million outstanding at any one time for the making of loans to housing companies organized to provide housing within the Project area pursuant to the New York State Private Housing Finance Law; (d) \$100 million for the purpose of repaying State appropriations including accrued interest thereon and funding the infrastructure of the Project, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; 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 the Housing New York Corporation (HNYC), a State public benefit corporation and subsidiary of the New York City Housing Development Corporation, in such amounts as are necessary to secure the issuance of bonds or notes by HNYC, in amounts not to exceed \$400 million, to finance low- and moderate-income housing developments outside the Authority's Project area, plus a principal amount of bonds or notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Pursuant to the Housing New York Act, only those bond or note proceeds of HNYC that are available on or before June 30, 1995 are permitted to be used to finance the housing program. Consequently, unless the Housing New York Act is amended, the Authority cannot pledge or assign any additional revenues in the future for the HNYC housing program.

The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed \$110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of April 30, 2008, no bonds were 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 10).

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

(10) 2003 Revenue Bonds

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

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

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

Funds aggregating \$860,037,332, representing the net proceeds of the bond issues after payment of underwriting fees and other issuance cost and deposits to debt service reserve and other funds and accounts held under the various Resolutions for the refund bonds, were used to purchase U.S. Government securities. Those securities were deposited in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded revenue bonds and the escrow agents were directed to redeem the bonds (all outstanding 1993, 1996, and 2000 Authority Revenue Bonds and the 1993 HNYC Senior Bonds). The liability for the defeased bonds, as well as the related trust assets, are not included in the Authority's financial statements and no longer represent a debt obligation of the Authority. In addition, approximately \$90.4 million of the bond proceeds was made available to the Authority to facilitate development and maintenance of the Project.

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The refundings resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by \$39 million. The difference between the reacquisition price and the net carrying amount of the refunded debt is 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 six-month periods ended April 30, 2008 and 2007.

The completion of the refundings resulted in the funding of approximately \$100 million of capitalized interest (net of cash used to complete the refundings) which was made available for the payment of interest through October 2006. The payment of principal commences in November 2008 on the 2003 Series A and 2003 Series C Bonds, while payment on the 2003 Series B Bonds commences in 2033. In addition, Debt Service Reserve Funds were originally funded in the aggregate amount of \$65,520,500 for the 2003 Series A, B, and C Bonds.

At April 30, 2008, the 2003 Series A Bonds consist of the following serial bonds:

	<u>Coupon rates</u>	<u>Principal amounts</u>	<u>Interest</u>
Year ended April 30:			
2009	2.10	\$ 14,570,000	19,855,799
2010	2.38 – 5.00	12,980,000	19,549,829
2011	2.63 – 5.00	13,645,000	19,085,929
2012	3.00 – 5.50	14,375,000	18,556,439
2013	3.40 – 5.50	15,205,000	17,915,983
2014 – 2018	3.50 – 5.50	91,580,000	76,878,739
2019 – 2023	4.00 – 5.25	121,875,000	50,156,219
2024 – 2027	4.60 – 5.00	122,120,000	15,597,585
Totals		<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 on a straight-line basis, over the lives of the 2003 Series A Bonds. At April 30, 2008 and 2007, the unamortized net bond premium was approximately \$21.7 million and \$22.8 million, respectively.

The 2003 Series A Bonds maturing after November 1, 2013 are subject to redemption, in whole or in part, at any time on or after November 1, 2013 at the option of the Authority, at a redemption price of par plus interest to the redemption date.

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As of April 30, 2008, 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
Year ended April 30:						
2009	\$ —	19,306,219	3,375,000	19,756,132	3,375,000	39,062,351
2010	—	19,306,219	5,450,000	19,585,332	5,450,000	38,891,551
2011	—	19,306,219	5,450,000	19,309,264	5,450,000	38,615,483
2012	—	19,306,219	5,450,000	19,033,481	5,450,000	38,339,700
2013	—	19,306,219	5,450,000	18,757,413	5,450,000	38,063,632
2014 – 2018	—	96,531,094	27,250,000	89,648,608	27,250,000	186,179,702
2019 – 2023	—	96,531,094	28,775,000	82,689,858	28,775,000	179,220,952
2024 – 2028	—	96,531,094	68,850,000	74,870,137	68,850,000	171,401,231
2029 – 2033	—	96,531,094	216,325,000	38,167,016	216,325,000	134,698,110
2034 – 2038	150,650,000	78,450,269	33,625,000	1,535,845	184,275,000	79,986,114
2039 – 2040	84,350,000	10,462,054	—	—	84,350,000	10,462,054
Total	\$ 235,000,000	571,567,794	400,000,000	383,353,086	635,000,000	954,920,880

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

Interest in the above table is based on the interest rates in effect closest to April 30, 2008, which were 4.949%, 4.865%, and 4.725% for Series B1, B2, and B3 of the 2003 Series B Bonds, respectively; and 4.505%, 4.355%, 5.4640%, 4.88%, and 5.275% for Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

In February 2008, the auctions for the Authority's Auction Rate Securities (ARS) in the secondary market began to fail intermittently due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Revenue Bonds, Series B and C variable-rate subordinate debt. On any failed auction date, the reset rate is set at a percentage of the 30-day London Interbank Offered Rate (LIBOR) based on the prevailing rating of the series bonds. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid February 2008 through April 30, 2008 ranged from a low of 4.438% to a high of 5.486% on the 2003 Series B Bonds and from a low of 4.743% to a high of 6.2360% on the 2003 Series C Bonds.

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 Bonds (the Bonds). The total notional amount of the Swaps was \$400 million. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds. The Authority executed the Swaps in order to effectively convert the variable-rate Bonds to a net fixed rate. Based on the Swaps, the Authority owes interest calculated at a fixed rate of 3.452% to the counterparties that is paid semiannually. In return, the counterparties owe the Authority floating-rate

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interest equal to 65% of 30 day LIBOR, which is paid to the Authority on a monthly basis. The amortization schedules of the total amount of the Swaps and the Bonds are identical, with each having a final amortization of November 1, 2033.

	2003			
	Series C		Interest-rate swaps	
	Bonds			
	<u>Principal</u>	<u>Payment</u>	<u>Receipts</u>	<u>Net payment</u>
Year ended April 30:				
2009	\$ 3,375,000	(13,808,000)	7,051,874	(6,756,126)
2010	5,450,000	(13,691,495)	6,973,753	(6,717,742)
2011	5,450,000	(13,503,361)	6,877,264	(6,626,097)
2012	5,450,000	(13,315,227)	6,780,776	(6,534,451)
2013	5,450,000	(13,127,093)	6,684,287	(6,442,806)
2014 – 2018	27,250,000	(62,813,455)	31,974,101	(30,839,354)
2019 – 2023	28,775,000	(58,068,681)	29,527,135	(28,541,546)
2024 – 2028	68,850,000	(52,737,067)	26,437,943	(26,299,124)
2029 – 2033	216,325,000	(27,598,740)	12,239,698	(15,359,042)
2034	33,625,000	(1,160,735)	297,655	(863,080)
Totals	<u>\$ 400,000,000</u>	<u>(269,823,854)</u>	<u>134,844,486</u>	<u>(134,979,368)</u>

The above table includes payments based on the Authority's fixed-rate Swap payment obligation at an interest rate of 3.452% while the receipts are based on the floating rate equal to 65% of 30-day LIBOR on April 30, 2008 (65% of 2.72375% or 1.77044%), which the counterparties are obligated to pay the Authority on a monthly basis. Receipts are projected based on the latest interest rate at April 30, 2008, but will vary monthly.

The Swaps had a negative fair market value of approximately \$24.3 million at April 30, 2008. 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 exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "A" or higher category from at least one of the nationally recognized credit rating agencies. The counterparties are required to post collateral to the extent that they experience an appreciable decline in credit rating and the Swaps have positive fair value for the Authority.

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

Debt service on the Senior Bonds (including the 2003 Series A Bonds) and on the Junior Bonds (including the 2003 Series B Bonds and the 2003 Series C 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

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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 8).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement, to provide for the custody of the Special Fund. The Authority established a new Special Fund to the credit of which shall be deposited approximately \$46 million. The Special Fund was funded from the proceeds of the former Special Fund created pursuant to a former 1993 Master Revenue Resolution upon the dissolution of such existing Special Fund in connection with the 2003 refunding of outstanding Authority bonds. The Special Fund may only be used by the Authority, as necessary, (i) to pay debt service obligations of the Authority on its bonds, or (ii) for purposes that are jointly agreed upon between the City and the Authority, as the same may be amended from time to time. Neither the Special Fund nor the monies on deposit from time to time therein may be pledged to secure any obligation pursuant to any Resolutions authorizing additional bonds or other bonds or debt obligations of the Authority. Income and earnings actually received by or for the account of the Authority from investments of monies on deposit from time to time in the Special Fund shall be treated as revenues.

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

The Authority entered into the Settlement Agreement with the City which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 Revenue Bonds, and on any bonds issued to finance the HYNC housing program (see notes 9 and 10), certain site development costs, and any agreed-upon commitments, will be remitted to the City; and (ii) all other rent payments and other revenue received by the Authority, remaining after payment of a proportionate part of the aforementioned items, will be retained by the Authority and spent in such manner and for such purposes as the Authority and the City shall jointly determine (see note 16(f)).

The \$83.1 million provided for the transfer to the City at fiscal year ended October 31, 2007 was paid in June 2008. A provision in the amount of \$41.6 million has been charged to operations for the six-month period ended April 30, 2008. The Authority will retain a portion of the estimated excess revenues at year end as corporate funds 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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(12) Rents and Other Receivables

Rents and other receivables comprise the following at April 30, 2008 and 2007:

	2008	2007
Swap interest receivable	\$ 585,000	1,152,667
Miscellaneous receivables	1,217,645	30,176
Accrued interest receivable	1,975,239	1,657,324
Rents receivable	1,088,093	834,598
Accrued rental income	7,576,257	5,023,607
Total receivables	12,442,234	8,698,372
Less allowance for doubtful accounts	(117,643)	(113,667)
Net receivables	\$ 12,324,591	8,584,705

(13) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at April 30, 2008 and 2007 comprise the following:

	2008	2007
Amounts due to vendors	\$ 5,670,889	5,262,107
Contract retention	2,457,234	2,683,134
Due to developers	27,500	27,500
State recovery costs	1,705,951	1,645,255
Accrued payroll and benefits	538,156	608,830
Accrued legal settlement	211,197	549,652
Total	\$ 10,610,927	10,776,478

(14) Retirement Costs

The Authority – The Authority participates in the New York State and Local Employees’ Retirement System (ERS), and the Public Employees’ Group Life Insurance Plan (the Plan). These are cost-sharing multiple-employer, defined benefit retirement systems. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (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 Systems, 110 State Street, Albany, NY 12236.

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The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than ten years of service who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension 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:

2008	\$	454,632
2007		392,719
2006		498,294
2005		509,748
		509,748
	\$	1,855,393

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

The Conservancy – The Conservancy sponsored a Tax Deferred Savings Annuity (TDSA), a 403(b) retirement plan, through December 2007 covering all its employees upon attainment of regular status. Eligible employees contributed up to 16.67% of their annual salary, but are limited to amounts necessary to meet nondiscrimination tests. The Conservancy contributed an amount equal to 25% of each employee's contribution up to a maximum of 6% of annual salary. In addition, the Conservancy contributed an amount equal to 2% of each employee's salary each pay period. After three years of employment, the Conservancy contributed an additional 1% of each employee's annual earnings up to \$40,000. Employees' contributions with accrued interest are fully vested at all times. Contributions by the Conservancy were subject to a five-year vesting using a cumulative 20% vesting schedule and amounted to \$5,231 and \$74,669 for the six-month periods ended April 30, 2008 and 2007, respectively. Employee contributions were \$93,777 for the six-month period ended April 30, 2007; while no contributions were made for the six-month period ended April 30, 2008.

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

The Conservancy began participation in the CIRS Pension Plan, an employer-funded defined benefit plan, during fiscal 2007. To be eligible under this plan, employees must be over the age of 21 and be employed for a minimum of one year at regular status. Benefits paid to retirees are based on age at retirement, years of credited service, and average compensation. The CIRS Pension Plan is a private pension plan governed

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by ERISA, and is characterized as a Multiemployer Plan by the U.S. Department of Labor. In the event of CIRS Pension Plan insolvency, the CIRS Pension Plan is covered under the Pension Benefit Guaranty Corporation. The total CIRS Pension Plan costs for eligible employees, exclusive of payments made directly by the Authority for retroactive service credit, amounted to \$16,750 and \$121,454 for the periods ended April 30, 2008 and April 30, 2007, respectively. The cost for retroactive service credit amounted to \$1,289,969 and was fully and directly funded by the Authority in June 2007 using funds held by the Authority on behalf on the Conservancy in the Operating Reserve Fund.

The Conservancy began participation in the CIRS Savings Plan during fiscal 2007. Under the CIRS Savings Plan, participants are required to contribute at least 2% of their base salary and direct the investment of their funds based on the investment options offered by the Savings Plan. To be eligible under this plan, employees must be over the age of 21 and be employed for a minimum of 3 months. Total contributions made by participants for the six-month period ended April 30, 2008 are \$118,895.

(15) 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 an 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 April 30, 2008. 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 about the probability of events in the future and actuarially determined amounts are subject to continual

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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 period ARC is approximately \$652 thousand 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.

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OPEB Status and Funding Progress

The Authority's OPEB obligation and the funded status of the plan as of April 30, 2008 are as follows:

Actuarial Accrued Liability (AAL):	
Net OPEB obligation beginning of year	\$ 13,852,211
Annual required contribution (ARC):	
Normal cost	361,360
Interest to period end	290,813
Payments for retirees during period	<u>(105,456)</u>
Net OPEB obligation end of period	<u>\$ 14,398,928</u>
Actuarial Accrued Liability (AAL) November 1, 2007	\$ 13,852,211
Funded OPEB plan assets November 1, 2007	<u>—</u>
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2007	<u>\$ 13,852,211</u>
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll	\$ 5,001,187
UAAL as percentage of covered payroll	277%

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, and postemployment benefit funds financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(16) Commitments and Other Matters

- (a) The Authority has entered into construction and other related contracts, having unexpended balances aggregating approximately \$46.7 million as of April 30, 2008.
- (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 \$654 thousand for the six-month period ended April 30, 2008.
- (c) The terrorist attack on the World Trade Center on September 11, 2001 destroyed the North Bridge and severely damaged the South Bridge owned by the Authority. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, the insurance monies were deposited into a fund jointly controlled by the Authority and the management team of the World Financial Center (Brookfield Financial Properties, American Express Company, and Merrill Lynch & Co.) in May 2006 for the purpose of ensuring access into Battery Park City from the connection that will be built from the World Trade Center site and for the purpose of

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Notes to Financial Statements

April 30, 2008 and 2007

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. Construction is expected to commence in August 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 July 31, 2006, the members of the Authority approved the payment of \$130 million of Joint Purpose Funds into a segregated escrow account known as the NYC Housing Trust Fund per a proposal by the Governor, the Mayor and City Comptroller. The funds will be used for affordable housing programs by the City's Department of Housing Preservation and Development (HPD). Progress reports will be delivered by HPD annually and all investments and expenditures of the funds will be subject to audit by the City Comptroller. The HPD programs are projected to use the \$130 million to provide an additional 4,300 of affordable housing units in the City by June 30, 2009. Approximately \$93.4 million held in the Joint Purpose Fund was transferred to HPD in September 2006 and the \$36.7 million balance was transferred in February 2007 in accordance with the agreement.
- (g) 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 of New York and New Jersey for the construction of a planned pedestrian concourse running under Route 9A. The concourse would connect the Winter Garden (on the west, at the edge of Battery Park City) and the World Trade Center site on the east. The proposal remains subject to approval by the Mayor and City Comptroller.
- (h) Pursuant to its ground lease with Goldman Sachs Headquarters LLC (Goldman) providing for construction by Goldman of a new world headquarters building in Battery Park City, the Authority entered into an arrangement as of July 18, 2007 under which Goldman may make purchases related to construction, furnishing and equipping the building without liability for New York State and City sales tax, for an aggregate sales tax exemption of up to \$60 million. To qualify for the exemption, the Authority is liable for payment of Goldman's purchases in connection with the building, in an amount not to exceed \$100 million (in addition to the value of goods delivered to the building), which purchases Goldman is to make as agent of the Authority, but which Goldman is obligated to

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pay pursuant to its ground lease. The Goldman Sachs Group, Inc (the corporate parent of Goldman) is executing a guaranty to assure reimbursement of any amounts paid by the Authority as a consequence of this arrangement. The likelihood of any payments made directly by the Authority resulting from this arrangement is considered remote.

- (i) 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. The Conservancy is a blended component unit of the Authority and the six-month periods ended April 30, 2008 and 2007 are the first reporting periods the Conservancy is included in the Authority's basic financial statements. 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 and repair the parks and open spaces in and around Battery Park City's residential areas. In March 1988, the Authority entered into a management agreement with the Conservancy, which authorized the Conservancy to undertake all responsibilities, related to the operation, maintenance, and repair of such parks and open spaces. For the six-month period ended April 30, 2008, the Authority paid the Conservancy approximately \$3.1 million for services, which are included in the Authority's operating expenses and approximately \$300 thousand payable by the Authority to the conservancy and is eliminated in the blending of the Conservancy's financial statements into the Authority's financial statement (see Other Supplementary Information – Combining Balance Sheet)

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(17) Litigation

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

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

- b) Numerous claims have been asserted against the Authority and others in State and Federal courts by cleaning contractor employees who worked in and around the World Trade Center site after the September 11th attack (such employees and their representatives hereinafter referred to as Plaintiffs), some of whom were undertaking clean-up activities for ground lessees of the Authority and tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. Certain of the claims have been dismissed or discontinued with prejudice with respect to the Authority on account of procedural defects. The remaining approximately 600 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.

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Other Supplementary Information – Combining Balance Sheet

April 30, 2008

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	\$ 13,843	140,415	—	154,258
Investments	89,416	275,362	—	364,778
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of \$117,643)	12,297,403	327,495	(300,307)	12,324,591
2003 Revenue Bond Resolution Funds	154,570,541	—	—	154,570,541
Corporate-designated, escrowed and OPEB funds	17,361,263	—	—	17,361,263
Total current assets	<u>184,332,466</u>	<u>743,272</u>	<u>(300,307)</u>	<u>184,775,431</u>
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	214,681,929	—	—	214,681,929
Residential lease required funds	10,637,652	—	—	10,637,652
Corporate-designated, escrowed and OPEB funds	224,518,297	—	—	224,518,297
Deferred costs:				
Bond issuance costs, less accumulated amortization of \$12,136,562	38,626,485	—	—	38,626,485
Costs of leases, less accumulated amortization of \$788,643	2,990,901	—	—	2,990,901
Battery Park City project assets – at cost, less accumulated depreciation	410,746,608	—	—	410,746,608
Other assets	6,859,106	181,164	—	7,040,270
Total noncurrent assets	<u>909,060,978</u>	<u>181,164</u>	<u>—</u>	<u>909,242,142</u>
Total assets	<u>\$ 1,093,393,444</u>	<u>924,436</u>	<u>(300,307)</u>	<u>1,094,017,573</u>

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

Other Supplementary Information – Combining Balance Sheet
April 30, 2008

Liabilities and Net Deficit		Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:					
Accrued interest on bonds		\$ 18,277,860	—	—	18,277,860
Accounts payable and other liabilities		10,468,375	442,859	(300,307)	10,610,927
Due to the City of New York		124,671,746	—	—	124,671,746
Deferred revenue:					
PILOT revenue		21,633,342	—	—	21,633,342
Base rent and other revenue		9,990,335	—	—	9,990,335
Securities and other deposits		18,435,083	—	—	18,435,083
2003 Revenue Bonds		17,945,000	—	—	17,945,000
Total current liabilities		<u>221,421,741</u>	<u>442,859</u>	<u>(300,307)</u>	<u>221,564,293</u>
Noncurrent liabilities:					
Deferred revenue:					
Base rent and other revenue		150,828,079	—	—	150,828,079
Security and other deposits		11,442,923	—	—	11,442,923
OPEB		14,398,928	—	—	14,398,928
Bonds outstanding:					
2003 Revenue Bonds, less accumulated amortization of \$5,330,056		1,045,070,915	—	—	1,045,070,915
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds		<u>(30,958,645)</u>	<u>—</u>	<u>—</u>	<u>(30,958,645)</u>
Total noncurrent liabilities		<u>1,190,782,200</u>	<u>—</u>	<u>—</u>	<u>1,190,782,200</u>
Total liabilities		<u>1,412,203,941</u>	<u>442,859</u>	<u>(300,307)</u>	<u>1,412,346,493</u>
Net assets (deficit):					
Invested in capital assets, net of related debt		5,295,853	—	—	5,295,853
Restricted:					
Debt service		144,279,311	—	—	144,279,311
Under bond resolutions and other agreements		223,087,084	291,369	—	223,378,453
Unrestricted deficit		<u>(691,472,745)</u>	<u>190,208</u>	<u>—</u>	<u>(691,282,537)</u>
Total net deficit		<u>(318,810,497)</u>	<u>481,577</u>	<u>—</u>	<u>(318,328,920)</u>
Total liabilities and net deficit		<u>\$ 1,093,393,444</u>	<u>924,436</u>	<u>(300,307)</u>	<u>1,094,017,573</u>

See accompanying independent accountants' review report.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Other Supplementary Information – Combining Balance Sheet

April 30, 2007

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	\$ 178,317	383,987	—	562,304
Investments	2,210,852	275,362	—	2,486,214
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of \$113,667)	8,574,936	271,522	(261,753)	8,584,705
2003 Revenue Bond Resolution Funds	162,699,674	—	—	162,699,674
Corporate-designated, escrowed and OPEB funds	16,743,033	—	—	16,743,033
Total current assets	<u>190,406,812</u>	<u>930,871</u>	<u>(261,753)</u>	<u>191,075,930</u>
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	186,185,647	—	—	186,185,647
Residential lease required funds	7,420,465	—	—	7,420,465
Corporate-designated, escrowed and OPEB funds	175,077,833	—	—	175,077,833
Deferred costs:				
Bond issuance costs, less accumulated amortization of \$10,698,088	40,064,960	—	—	40,064,960
Costs of leases, less accumulated amortization of \$725,454	2,611,841	—	—	2,611,841
Battery Park City project assets – at cost, less accumulated depreciation	388,941,600	—	—	388,941,600
Other assets	7,920,916	195,614	—	8,116,530
Total noncurrent assets	<u>808,223,262</u>	<u>195,614</u>	<u>—</u>	<u>808,418,876</u>
Total assets	<u>\$ 998,630,074</u>	<u>1,126,485</u>	<u>(261,753)</u>	<u>999,494,806</u>

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
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Other Supplementary Information – Combining Balance Sheet
April 30, 2007

Liabilities and Net Deficit	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	\$ 17,658,351	—	—	17,658,351
Accounts payable and other liabilities	10,497,776	540,455	(261,753)	10,776,478
Due to the City of New York	156,895,000	—	—	156,895,000
Deferred revenue:				
PILOT revenue	21,544,544	—	—	21,544,544
Base rent and other revenue	6,933,009	—	—	6,933,009
Securities and other deposits	16,746,375	—	—	16,746,375
2003 Revenue Bonds	—	—	—	—
Total current liabilities	<u>230,275,055</u>	<u>540,455</u>	<u>(261,753)</u>	<u>230,553,757</u>
Noncurrent liabilities:				
Deferred revenue:				
Base rent and other revenue	101,718,929	—	—	101,718,929
Security and other deposits	8,225,772	—	—	8,225,772
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of \$4,156,319	1,064,189,653	—	—	1,064,189,653
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	<u>(32,735,012)</u>	<u>—</u>	<u>—</u>	<u>(32,735,012)</u>
Total noncurrent liabilities	<u>1,141,399,342</u>	<u>—</u>	<u>—</u>	<u>1,141,399,342</u>
Total liabilities	<u>1,371,674,397</u>	<u>540,455</u>	<u>(261,753)</u>	<u>1,371,953,099</u>
Net assets (deficit):				
Invested in capital assets, net of related debt	7,201,909	—	—	7,201,909
Restricted:				
Debt service	126,483,679	—	—	126,483,679
Under bond resolutions and other agreements	136,968,611	277,444	—	137,246,055
Unrestricted deficit	<u>(643,698,522)</u>	<u>308,586</u>	<u>—</u>	<u>(643,389,936)</u>
Total net (deficit) assets	<u>(373,044,323)</u>	<u>586,030</u>	<u>—</u>	<u>(372,458,293)</u>
Total liabilities and net (deficit) assets	<u>\$ 998,630,074</u>	<u>1,126,485</u>	<u>(261,753)</u>	<u>999,494,806</u>

See accompanying independent accountants' review report.

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

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

Six-month period ended April 30, 2008

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 28,098,041	—	—	28,098,041
Supplemental rent	281,273	—	—	281,273
Payments in lieu of real estate taxes	66,307,613	—	—	66,307,613
Civic facilities payments and other	4,900,491	3,994,729	(3,789,312)	5,105,908
Total operating revenues	<u>99,587,418</u>	<u>3,994,729</u>	<u>(3,789,312)</u>	<u>99,792,835</u>
Operating expenses:				
Wages and related benefits	3,684,406	2,877,619	—	6,562,025
OPEB	652,173	—	—	652,173
Other operating and administrative expenses	11,211,308	1,031,838	(3,818,345)	8,424,801
Depreciation of project assets	2,571,300	—	—	2,571,300
Other depreciation and amortization	1,493,878	40,349	—	1,534,227
Total operating expenses	<u>19,613,065</u>	<u>3,949,806</u>	<u>(3,818,345)</u>	<u>19,744,526</u>
Operating income	<u>79,974,353</u>	<u>44,923</u>	<u>29,033</u>	<u>80,048,309</u>
Nonoperating revenues (expenses):				
Investment income on funds relating to:				
2003 Revenue Bonds	2,192,829	—	—	2,192,829
Corporate-designated, escrowed and OPEB funds	2,282,271	—	—	2,282,271
Net increase in the fair value of investments	11,059,159	—	—	11,059,159
Other revenue	6,298,394	29,033	378,588	6,706,015
Interest expense relating to:				
2003 Swap agreements – net interest (expense) income	—	—	—	—
2003 Revenue Bonds	(1,746,795)	—	—	(1,746,795)
Loss from extinguishment	(23,541,049)	—	—	(23,541,049)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	(888,183)	—	—	(888,183)
Total nonoperating expenses	<u>(45,915,120)</u>	<u>29,033</u>	<u>378,588</u>	<u>(45,507,499)</u>
Change in net assets	34,059,233	73,956	407,621	34,540,810
Net deficit, beginning of period	<u>(352,869,730)</u>	<u>407,621</u>	<u>(407,621)</u>	<u>(352,869,730)</u>
Net deficit, end of period	<u>\$ (318,810,497)</u>	<u>481,577</u>	<u>—</u>	<u>(318,328,920)</u>

See accompanying independent accountants' review report.

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

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

Six-month period ended April 30, 2007

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues:				
Revenues from ground leases:				
Base rent	\$ 25,544,822	—	—	25,544,822
Supplemental rent	264,631	—	—	264,631
Payments in lieu of real estate taxes	66,070,365	—	—	66,070,365
Civic facilities payments and other	13,465,648	4,293,327	(4,120,062)	13,638,913
Total operating revenues	<u>105,345,466</u>	<u>4,293,327</u>	<u>(4,120,062)</u>	<u>105,518,731</u>
Operating expenses:				
Wages and related benefits	3,574,513	2,986,896	—	6,561,409
OPEB	—	—	—	—
Other operating and administrative expenses	11,628,928	1,068,054	(4,179,641)	8,517,341
Depreciation of project assets	2,316,909	—	—	2,316,909
Other depreciation and amortization	1,673,497	52,076	—	1,725,573
Total operating expenses	<u>19,193,847</u>	<u>4,107,026</u>	<u>(4,179,641)</u>	<u>19,121,232</u>
Operating income	<u>86,151,619</u>	<u>186,301</u>	<u>59,579</u>	<u>86,397,499</u>
Nonoperating revenues (expenses):				
Investment income on funds relating to:				
2003 Revenue Bonds	1,977,742	—	—	1,977,742
Corporate-designated and escrowed funds and other	2,246,518	—	—	2,246,518
Net increase in the fair value of investments	8,565,555	—	—	8,565,555
Other revenue	—	59,579	280,571	340,150
Interest expense relating to:				
2003 Swap agreements – net interest income (expense)	57,559	—	—	57,559
2003 Revenue Bonds	(20,441,854)	—	—	(20,441,854)
Loss from extinguishment	(888,183)	—	—	(888,183)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts	(45,500,000)	—	—	(45,500,000)
Total nonoperating expenses	<u>(53,982,663)</u>	<u>59,579</u>	<u>280,571</u>	<u>(53,642,513)</u>
Change in net assets	32,168,956	245,880	340,150	32,754,986
Net deficit, beginning of period	<u>(405,213,279)</u>	<u>340,150</u>	<u>(340,150)</u>	<u>(405,213,279)</u>
Net deficit, end of period	<u>\$ (373,044,323)</u>	<u>586,030</u>	<u>—</u>	<u>(372,458,293)</u>

See accompanying independent accountants' review report.

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

Other Supplementary Information – Combining Statements of Cash Flows

Six-month period ended April 30, 2008

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 154,398,627	—	—	154,398,627
Receipts from the authority	—	3,042,279	(3,042,279)	—
Miscellaneous receipts	432,504	206,890	—	639,394
Total cash receipts from operating activities	<u>154,831,131</u>	<u>3,249,169</u>	<u>(3,042,279)</u>	<u>155,038,021</u>
Cash payments for:				
Salaries and benefits	(3,780,975)	(2,791,834)	—	(6,572,809)
Services and supplies	(8,754,151)	(530,159)	3,042,279	(6,242,031)
Total cash payments from operating activities	<u>(12,535,126)</u>	<u>(3,321,993)</u>	<u>3,042,279</u>	<u>(12,814,840)</u>
Net cash provided by (used in) operating activities	<u>142,296,005</u>	<u>(72,824)</u>	<u>—</u>	<u>142,223,181</u>
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(83,381)	—	—	(83,381)
NYC School Construction Authority receipt	1,640,829	—	—	1,640,829
Payment to the NYC School Construction Authority	(884,500)	—	—	(884,500)
Payment from Millenium (Site 2A) – Site security deposit	2,832,476	—	—	2,832,476
Net cash provided by noncapital financing activities	<u>3,505,424</u>	<u>—</u>	<u>—</u>	<u>3,505,424</u>
Cash flows from capital and related financing activities:				
Capital asset expenditures	(102,378)	(29,033)	29,033	(102,378)
Cash receipts for purchase of capital asset expenditures	—	29,033	(29,033)	—
Development costs – site improvements and construction	(12,973,758)	—	—	(12,973,758)
Defeasance escrow funds	—	—	—	—
Auction fees for variable debt	(801,354)	—	—	(801,354)
Swap payment made on the 2003 Swap agreement	(6,904,000)	—	—	(6,904,000)
Swap interest payments received on the 2003 Swap agreement	5,718,657	—	—	5,718,657
Interest paid on 2003 Senior Revenue Bonds	(9,927,899)	—	—	(9,927,899)
Interest paid on 2003 Junior Revenue Bonds	(12,937,017)	—	—	(12,937,017)
Net cash used in capital and related financing activities	<u>(37,927,749)</u>	<u>—</u>	<u>—</u>	<u>(37,927,749)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	10,935,109	—	—	10,935,109
Fair value adjustment short-term investments	136,764	—	—	136,764
Redemptions and sales of investment securities	247,514,880	—	—	247,514,880
Purchases of investment securities	(471,001,969)	—	—	(471,001,969)
Net cash used in investing activities	<u>(212,415,216)</u>	<u>—</u>	<u>—</u>	<u>(212,415,216)</u>
Decrease in cash and cash equivalents	(104,541,536)	(72,824)	—	(104,614,360)
Cash and cash equivalents, beginning of period	249,283,708	488,601	—	249,772,309
Cash and cash equivalents, end of period	<u>\$ 144,742,172</u>	<u>415,777</u>	<u>—</u>	<u>145,157,949</u>

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

Other Supplementary Information – Combining Statements of Cash Flows

Six-month period ended April 30, 2008

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$ 79,974,353	44,923	29,033	80,048,309
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Bad debt expense	3,975	—	—	3,975
Depreciation and amortization	4,065,178	40,349	—	4,105,527
Changes in operating assets and liabilities:				
Decrease (increase) in rents and other receivables	1,603,500	(297,741)	249,256	1,555,015
(Increase) decrease in other assets	(587,299)	86,704	—	(500,595)
Increase in accounts payable and other liabilities	3,100,249	52,941	(278,289)	2,874,901
Increase in deferred revenue	53,589,332	—	—	53,589,332
Increase in OPEB	546,717	—	—	546,717
Net cash provided by (used in) operating activities	<u>\$ 142,296,005</u>	<u>(72,824)</u>	<u>—</u>	<u>142,223,181</u>
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 13,843	140,415	—	154,258
Cash and cash equivalents	6,071,856	275,362	—	6,347,218
Investments with less than 91 day maturities	138,656,473	—	—	138,656,473
Cash and cash equivalents, end of period	<u>\$ 144,742,172</u>	<u>415,777</u>	<u>—</u>	<u>145,157,949</u>

See accompanying independent accountants' review report.

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

Other Supplementary Information – Combining Statements of Cash Flows

Six-month period ended April 30, 2007

	<u>Battery Park City Authority</u>	<u>Battery Park City Parks Conservancy</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	\$ 104,409,457	—	—	104,409,457
Receipts from the authority	—	3,280,853	(3,280,853)	—
Miscellaneous receipts	263,772	208,568	—	472,340
Total cash receipts from operating activities	<u>104,673,229</u>	<u>3,489,421</u>	<u>(3,280,853)</u>	<u>104,881,797</u>
Cash payments for:				
Salaries and benefits	(3,446,129)	(2,793,133)	—	(6,239,262)
Services and supplies	(8,959,809)	(440,808)	3,280,853	(6,119,764)
Total cash payments from operating activities	<u>(12,405,938)</u>	<u>(3,233,941)</u>	<u>3,280,853</u>	<u>(12,359,026)</u>
Net cash provided by operating activities	<u>92,267,291</u>	<u>255,480</u>	<u>—</u>	<u>92,522,771</u>
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(114,325)	—	—	(114,325)
Payment to the NYC Housing Trust Fund	(36,651,610)	—	—	(36,651,610)
Net cash used in noncapital financing activities	<u>(36,765,935)</u>	<u>—</u>	<u>—</u>	<u>(36,765,935)</u>
Cash flows from capital and related financing activities:				
Capital asset expenditures	(307,081)	(59,579)	59,579	(307,081)
Cash Receipts for purchase of capital asset expenditures	—	59,579	(59,579)	—
Development costs – site improvements and construction	(5,030,517)	—	—	(5,030,517)
Defeasance escrow funds	343,492	—	—	343,492
Auction fees for variable debt	(801,875)	—	—	(801,875)
Swap payment made on the 2003 Swap agreement	(6,904,000)	—	—	(6,904,000)
Swap interest payments received on the 2003 Swap agreement	7,000,402	—	—	7,000,402
Interest paid on 2003 Senior Revenue Bonds	(9,927,899)	—	—	(9,927,899)
Interest paid on 2003 Junior Revenue Bonds	(10,357,303)	—	—	(10,357,303)
Net cash used in capital and related financing activities	<u>(25,984,781)</u>	<u>—</u>	<u>—</u>	<u>(25,984,781)</u>
Cash flows from investing activities:				
Interest and realized gains received on investment securities	12,059,962	—	—	12,059,962
Fair value adjustment short-term investments	1,277,976	—	—	1,277,976
Redemptions and sales of investment securities	135,414,881	—	—	135,414,881
Purchases of investment securities	(156,757,823)	—	—	(156,757,823)
Net cash used in investing activities	<u>(8,005,004)</u>	<u>—</u>	<u>—</u>	<u>(8,005,004)</u>
Increase in cash and cash equivalents	21,511,571	255,480	—	21,767,051
Cash and cash equivalents, beginning of period	260,970,269	403,869	—	261,374,138
Cash and cash equivalents, end of period	\$ <u>282,481,840</u>	<u>659,349</u>	<u>—</u>	<u>283,141,189</u>

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

Other Supplementary Information – Combining Statements of Cash Flows

Six-month period ended April 30, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 86,151,619	186,301	59,579	86,397,499
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,990,406	52,076		4,042,482
Changes in operating assets and liabilities:				
Increase in rents and other receivables	(1,353,944)	(222,428)	176,657	(1,399,715)
(Increase) decrease in other assets	(944,901)	161,143	—	(783,758)
Increase in accounts payable and other liabilities	2,924,715	78,388	(236,236)	2,766,867
Increase in deferred revenue	1,499,396	—	—	1,499,396
Net cash provided by operating activities	\$ 92,267,291	255,480	—	92,522,771
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	\$ 178,317	383,987	—	562,304
Cash and cash equivalents	6,000,913	275,362	—	6,276,275
Investments with less than 91 day maturities	276,302,610	—	—	276,302,610
Cash and cash equivalents, end of period	\$ 282,481,840	659,349	—	283,141,189

See accompanying independent accountants' review report.