



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

Basic Financial Statements

October 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

Basic Financial Statements

October 31, 2009 and 2008

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KPMG LLP
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Independent Auditors' Report

The Members
Hugh L. Carey Battery Park City Authority:

We have audited the accompanying basic financial statements of the Hugh L. Carey Battery Park City Authority (the Authority), a component unit of the State of New York, as of and for the years ended October 31, 2009 and 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of October 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 18 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 audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The other supplementary information listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied by us in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 22, 2010

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Management's Discussion and Analysis

October 31, 2009 and 2008

(Unaudited)

Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) and the Battery Park City Parks Conservancy (the Conservancy), a blended component unit of the Authority, collectively referred to as "the Organization" for the fiscal years ended October 31, 2009, 2008 and 2007. The basic financial statements, which include the balance sheets, the statements of revenues, expenses, and changes in net deficit, and the statements of cash flows, and the notes to the financial statements, provide information about the Organization in accordance with U.S. generally accepted accounting principles. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Comparison of 2009 to 2008 and 2008 to 2007

Financial Highlights – 2009

- The fiscal year ended October 31, 2009 yielded a total of \$224 million in operating revenues, representing an increase of approximately \$12.4 million or 5.9% over the prior fiscal year. Total operating expenses increased \$9.3 million to \$48.7 million for the fiscal year ended October 31, 2009.
- A \$90.5 million provision was recorded for the fiscal year ended October 31, 2009 representing fiscal 2009 excess revenues to be transferred to the City of New York (the City) (see note 11). Additionally, a \$13.4 million provision was recorded for the transfer of funds held in the Special Fund (see note 17(f)) to the Port Authority of New York & New Jersey (PANYNJ). Generally, the Authority's net assets decrease with increases in the amount of excess revenues provided to the City, which has an adverse effect on the Authority's net asset position. At October 31, 2009, the Authority retained approximately \$267.6 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide (see note 11).
- The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation (see note 18) and is a blended component unit of the Authority. The 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 fiscal years ended October 31, 2009 and 2008 (see Other Supplementary Information).
- In February 2008, auctions for Auction Rate Securities (ARS) in the secondary market began to fail intermittently and continued to fail through the fiscal year ended October 31, 2009 due to insufficient investor orders to support the product. 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 2003 Series B and C Junior Revenue Bonds. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 2008 through October 2009 ranged from a low of 0.486% to a high of 5.549% on the 2003 Series B Bonds and from a low of 0.486% to a high of 8.718% on the 2003 Series C Bonds (see note 10). The 30-day LIBOR rate dropped precipitously beginning November 2008 and remained relatively low for the remainder of the fiscal year.

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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 \$4.5 million of base rent, \$896 thousand of Payment in Lieu of Taxes (PILOT), and \$881 thousand in other revenue and interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2008. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds from the sale of each condominium unit will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facility, which will be owned by the Authority as condominium units. Construction of the buildings began in the spring of 2008.
- At October 31, 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 \$14.9 million.
- The fiscal year ended October 31, 2008 yielded a total of \$211.6 million in operating revenues, representing an increase of approximately \$5.1 million or 2.4% over the prior fiscal year. Total operating expenses decreased \$14.2 million to \$39.4 million for the fiscal year ended October 31, 2008.
- A \$92.7 million liability was recorded at October 31, 2008 representing the transfer of fiscal 2008 excess revenues to the City. At October 31, 2008, the Authority retained approximately \$215.4 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. In addition, at October 31, 2008, the Authority held approximately \$10.2 million in the Project Costs Fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures (see note 8).
- In February 2008, auctions for ARS in the secondary market began to fail intermittently and continued to fail through the fiscal year ended October 31, 2008, resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). The reset rates on auctions that settled from mid February 2008 through October 31, 2008 ranged from a low of 2.5% to a high of 7.898% on the 2003 Series B Bonds and from a low of 4.18% to a high of 8.718% on the 2003 Series C Bonds.

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Summary Schedule of Net Assets

The summary schedule of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets (deficit) are the difference between total assets and total liabilities. A summarized comparison of the Organization's assets, liabilities, and net deficit at October 31, 2009, 2008 and 2007 is as follows:

| | October 31 | | | 2009 vs 2008 | 2008 vs 2007 |
|---|-------------------------|----------------------|----------------------|--------------------------------|--------------------------------|
| | 2009 | 2008 | 2007 | Increase (decrease) | Increase (decrease) |
| Assets: | | | | | |
| Bank deposits, investments, and rents and other receivables | \$ 21,488,317 | 21,172,802 | 18,595,807 | 315,515 | 2,576,995 |
| Bond resolution restricted assets (current and noncurrent) | 286,619,196 | 340,387,509 | 294,712,467 | (53,768,313) | 45,675,042 |
| Battery Park City project assets, net | 461,548,193 | 449,568,884 | 394,607,108 | 11,979,309 | 54,961,776 |
| Other current and noncurrent assets | 391,637,995 | 305,053,797 | 246,775,935 | 86,584,198 | 58,277,862 |
| Total assets | <u>\$ 1,161,293,701</u> | <u>1,116,182,992</u> | <u>954,691,317</u> | <u>45,110,709</u> | <u>161,491,675</u> |
| Liabilities: | | | | | |
| Current liabilities | \$ 193,177,302 | 188,726,988 | 153,463,943 | 4,450,314 | 35,263,045 |
| Long-term liabilities | 1,223,642,666 | 1,230,182,894 | 1,153,689,483 | (6,540,228) | 76,493,411 |
| Total liabilities | <u>1,416,819,968</u> | <u>1,418,909,882</u> | <u>1,307,153,426</u> | <u>(2,089,914)</u> | <u>111,756,456</u> |
| Net assets (deficit): | | | | | |
| Invested in capital assets, net of related debt | 9,354,597 | (280,135) | 248,751 | 9,634,732 | (528,886) |
| Restricted | 378,935,643 | 336,524,025 | 240,000,945 | 42,411,618 | 96,523,080 |
| Unrestricted | (643,816,507) | (638,960,780) | (592,711,805) | (4,855,727) | (46,248,975) |
| Total net deficit | <u>(255,526,267)</u> | <u>(302,716,890)</u> | <u>(352,462,109)</u> | <u>47,190,623</u> | <u>49,745,219</u> |
| Total liabilities and net deficit | <u>\$ 1,161,293,701</u> | <u>1,116,192,992</u> | <u>954,691,317</u> | <u>45,100,709</u> | <u>161,501,675</u> |

Assets

2009 vs. 2008

At October 31, 2009, the Organization maintained total assets of approximately \$1.16 billion, approximately \$45.1 million greater than total assets at October 31, 2008.

Bank deposits, investments, and rents and other receivables increased approximately \$315 thousand to \$21.5 million at October 31, 2009 and is primarily due to a \$3.1 million decrease in unrestricted investments, offset by a \$3.1 million increase in rents and other receivables (see note 12). The decrease in investments primarily relates to a \$7.4 million transfer of fiscal 2008 transaction and administrative payments received on the sale of residential units into the 2003 bond resolution restricted accounts after the fiscal year ended October 31, 2008, offset by the collection of transaction and administrative payments in fiscal 2009 of approximately

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\$4.4 million and held in unrestricted accounts at October 31, 2009. The decrease in rents and other receivables relates to a \$203 thousand decrease in interest receivable and an \$841 thousand decrease in Swap receivable relating to a decrease in the 30-day LIBOR rate at each fiscal period end, offset by increases of \$512 thousand in bond issuance costs for the December 2009 bond issuance, \$2.4 million relating to rent due on a lease with Goldman Sachs Headquarters LLC (Goldman) and \$1 million relating to an unpaid upfront lease payment due from Site 3.

The Authority's bond resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond Resolutions, approximately \$286.6 million at October 31, 2009, \$53.8 million lower than the October 31, 2008 balance of \$340.4 million. At October 31, 2009 funds held for the designated purposes of paying debt service were approximately \$7.8 million higher than October 31, 2008 primarily due to increased funding requirements for principal payments. Approximately \$3.7 million less in excess revenues was held at October 31, 2009 in the Residual Fund for the benefit of the City compared to October 31, 2008 resulting from a decrease in the amounts payable to the City. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2009 were approximately \$45.4 million less than funds held at October 31, 2008. The decrease is primarily attributable to transfers of approximately \$274 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses, and transferring funds to the City and retaining funds in the Joint Purpose Fund, offset by deposits of approximately \$233 million relating to ground lease payments, interest rate exchange agreement (Swap) receipts from the three counterparties, and interest earnings. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately \$10 million lower compared to October 31, 2008 due to investments in infrastructure and other assets.

2008 vs. 2007

At October 31, 2008, the Organization maintained total assets of approximately \$1.1 billion, approximately \$161.5 million greater than total assets at October 31, 2007.

Bank deposits, investments, and rents and other receivables increased approximately \$2.6 million to \$21.2 million at October 31, 2008 and is primarily due to a \$3.2 million increase in investments offset by a \$693 thousand decrease in rents and other receivables. The increase in investments primarily relates to the collection of transaction and administrative payments, approximately \$7.1 million, received on the sale of residential units and held in unrestricted funds at October 31, 2008, offset by transfers of fiscal 2007 collections into the 2003 bond resolution restricted accounts prior to October 31, 2008.

The Authority's bond resolution restricted assets are funds and accounts established in accordance with the 2003 Revenue Bond Resolutions, approximately \$340.4 million at October 31, 2008, approximately \$45.7 million higher than the October 31, 2007 balance of \$294.7 million. At October 31, 2008 funds held under the 2003 Revenue Bond Resolutions for the designated purposes of paying debt service were approximately \$14.7 million higher than October 31, 2007 primarily due to funding requirements and interest payments. Other 2003 Revenue Bond Resolution assets designated for the purposes of funding operations and debt service reserves decreased \$1.1 million. Approximately \$4.3 million less in excess revenues was held at October 31, 2008 in the Residual Fund for the benefit of the City compared to October 31, 2007. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2008 were approximately \$65.3 million higher than funds held at October 31, 2007.

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The increase is primarily attributable to deposits of approximately \$282.3 million relating to ground lease payments, interest rate exchange agreement (Swap) receipts from the three counterparties, and interest earnings offset by transfers of approximately \$217.6 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses and, transferring funds to the City and retaining funds in the Joint Purpose Fund. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately \$29 million lower as compared to October 31, 2007 due to investments in infrastructure and other assets.

Project Assets

At October 31, 2009, the Authority's investment in project assets, net of accumulated depreciation was approximately \$461.5 million, an increase of \$12 million over October 31, 2008.

The Battery Park City project (Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction by private developers of approximately 10.2 million square feet of office space, a 502,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units and approximately 8,500 residential units (see notes 2, 5 and 6). Approximately 2.2 million square feet of commercial space representing the Goldman Sachs headquarters located on Site 26 is substantially complete. A total of 471 residential units in two residential buildings on Sites 23 and 24, and a public school on Site 2B are currently under construction.

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 on Sites 1, 16/17, 3, and a community center on Sites 23 and 24, and related infrastructure improvements are included in project assets. The balances at October 31, 2009, 2008 and 2007 are as follows:

| | <u>2009</u> | <u>October 31 2008</u> | <u>2007</u> | <u>2009 vs 2008</u> | <u>2008 vs 2007</u> |
|--|-----------------------|----------------------------|---------------------|-------------------------|-------------------------|
| Land | \$ 83,015,653 | 83,015,653 | 83,015,653 | — | — |
| Site improvements | 357,580,295 | 350,174,709 | 334,671,507 | 7,405,586 | 15,503,202 |
| Residential building and condominium units | <u>98,364,135</u> | <u>87,750,081</u> | <u>43,268,009</u> | <u>10,614,054</u> | <u>44,482,072</u> |
| | 538,960,083 | 520,940,443 | 460,955,169 | 18,019,640 | 59,985,274 |
| Less accumulated depreciation | <u>(77,411,890)</u> | <u>(71,371,559)</u> | <u>(66,348,061)</u> | <u>(6,040,331)</u> | <u>(5,023,498)</u> |
| Total Battery Park City project assets | <u>\$ 461,548,193</u> | <u>449,568,884</u> | <u>394,607,108</u> | <u>11,979,309</u> | <u>54,961,776</u> |

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2009 vs. 2008

For the fiscal year ended October 31, 2009, the increase in Site Improvements of approximately \$7.4 million, relates to improvements to the Esplanade, Teardrop park and other park improvements in the north and south neighborhoods and as well as other minor capital improvements. The \$10.6 million increase in residential building and condominium units during the fiscal year ended October 31, 2009 principally relates to the construction of a community center and ballfield maintenance facility at Sites 23 and 24; coupled with costs relating to a maintenance facility to be used by the Conservancy at Site 3.

2008 vs. 2007

For the fiscal year ended October 31, 2008, the increase in Site Improvements of approximately \$15.5 million, relates to improvements to the Esplanade, park improvements in the north and south neighborhoods as well as other minor capital improvements. Additionally, the Authority acquired \$7.6 million in marina assets associated with a defaulted lessee during the fiscal year. Offsetting these additions, the Authority retired \$4 million in infrastructure assets primarily related to the transfer of a portion of the north neighborhood streets to the City.

The \$44.5 million increase in residential building and condominium units during the fiscal year ended October 31, 2008 principally relates to \$26.7 million for the build out of a community center and ballfield maintenance facility at Sites 23 and 24; coupled with costs relating to the build out of a maintenance facility to be used by the Conservancy at Site 3 of approximately \$13.5 million.

Other Current and Noncurrent Assets

Other current and noncurrent assets at October 31, 2009, 2008 and 2007 are as follows:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
|---|-----------------------|--------------------|--------------------|-------------------|-------------------|
| Residential lease required funds | \$ 18,992,184 | 15,589,335 | 7,620,015 | 3,402,849 | 7,969,320 |
| Corporate-designated, escrowed and OPEB funds | 326,354,351 | 241,295,331 | 190,181,449 | 85,059,020 | 51,113,882 |
| Deferred costs: | | | | | |
| Bond issuance costs, net | 36,468,774 | 37,907,248 | 39,345,722 | (1,438,474) | (1,438,474) |
| Costs of leases, net | 3,798,078 | 3,862,220 | 2,569,715 | (64,142) | 1,292,505 |
| Total deferred costs, net | 40,266,852 | 41,769,468 | 41,915,437 | (1,502,616) | (145,969) |
| Other assets | 6,024,608 | 6,399,663 | 7,059,034 | (375,055) | (659,371) |
| Total other current and noncurrent assets | <u>\$ 391,637,995</u> | <u>305,053,797</u> | <u>246,775,935</u> | <u>86,584,198</u> | <u>58,277,862</u> |

2009 vs. 2008

Total other current and noncurrent assets increased approximately \$86.6 million from \$305 million at October 31, 2008 to \$391.6 million at October 31, 2009.

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Residential lease required funds increased approximately \$3.4 million from \$15.6 million at October 31, 2008 to \$19 million at October 31, 2009 and relates to security deposits received from ground lease tenants; \$1.4 million from Site 16/17 and \$1.8 million from Site 3, coupled with interest earnings on all residential funds held.

Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$85.1 million. The increase is primarily attributable to a \$98.7 million transfer from the 2003 Revenue Bond Funds into the Joint Purpose Fund in January 2009, which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2008, coupled with interest earnings and market adjustments on all funds held, approximately \$8 million. These increases were offset by a \$14.1 million transfer of funds to the City relating to the defeasance of the Housing Revenue Bonds in fiscal 2005 and a \$7.5 million transfer of corporate funds to bond resolution funds for the use of capital expenditures. Beginning May 2009, corporate designated funds were earmarked for the replenishment of capital expenses as bond proceeds were nearing extinguishment. Certain corporate funds used will be reimbursed with proceeds from the December 2009 bond issuance. Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Other assets decreased by \$375 thousand primarily due to annual depreciation offset by minor fixed asset purchases.

2008 vs. 2007

Total other current and noncurrent assets increased approximately \$58.3 million from \$246.8 million at October 31, 2007 to \$305.1 million at October 31, 2008.

Residential lease required funds increased approximately \$8 million from \$7.6 million at October 31, 2007 to \$15.6 million at October 31, 2008 and relates to security deposits received from Site 2A; \$2.8 million, Site 16/17; \$4.6 million and Site 3; \$139 thousand, coupled with interest earnings on all funds held.

Overall, corporate-designated, escrowed, and OPEB funds increased approximately \$51.1 million from the prior fiscal year. The increase is primarily attributable to a \$43.9 million transfer of 2003 Revenue Bond Funds in 2008 to the JPF, which relates to excess revenues retained by the Authority from the fiscal year ended October 31, 2007. Additionally, deposits to the Conservancy's reserves and interest earnings on all funds held increased the overall balance.

Amortization of deferred costs decreased bond issuance costs by approximately \$1.4 million. Costs of leases increased \$1.3 million and relates to costs 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 \$659 thousand primarily due to annual depreciation offset by minor fixed asset purchases.

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Liabilities

Total liabilities at October 31, 2009, 2008 and 2007 are as follows:

| | <u>October 31</u> | | | <u>2009 vs 2008</u> | <u>2008 vs 2007</u> |
|--|-------------------------|----------------------|----------------------|-------------------------|-------------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> | | |
| Current liabilities: | | | | | |
| Accrued interest on bonds | \$ 16,732,457 | 18,301,915 | 17,822,091 | (1,569,458) | 479,824 |
| Accounts payable and other liabilities | 11,305,786 | 7,087,189 | 5,776,476 | 4,218,597 | 1,310,713 |
| Due to the City | 90,537,000 | 92,736,000 | 83,100,000 | (2,199,000) | 9,636,000 |
| Due to the PANYNJ | 13,438,007 | — | — | 13,438,007 | — |
| Deferred revenue | 39,040,950 | 35,047,311 | 29,672,501 | 3,993,639 | 5,374,810 |
| Security and other deposits | 3,693,102 | 17,609,573 | 17,092,875 | (13,916,471) | 516,698 |
| 2003 Revenue Bonds | 18,430,000 | 17,945,000 | — | 485,000 | 17,945,000 |
| Total current liabilities | <u>193,177,302</u> | <u>188,726,988</u> | <u>153,463,943</u> | <u>4,450,314</u> | <u>35,263,045</u> |
| Noncurrent liabilities: | | | | | |
| Deferred revenue | 191,144,394 | 184,382,843 | 99,656,028 | 6,761,551 | 84,726,815 |
| Security and other deposits | 19,879,295 | 16,442,500 | 8,425,288 | 3,436,795 | 8,017,212 |
| Other Post Employment Benefits | 16,032,763 | 14,943,967 | 13,852,211 | 1,088,796 | 1,091,756 |
| Bonds outstanding: | | | | | |
| 2003 Revenue Bonds | 1,024,880,309 | 1,044,484,046 | 1,063,602,784 | (19,603,737) | (19,118,738) |
| Unamortized loss on extinguishment | <u>(28,294,095)</u> | <u>(30,070,462)</u> | <u>(31,846,828)</u> | <u>1,776,367</u> | <u>1,776,366</u> |
| Total noncurrent liabilities | <u>1,223,642,666</u> | <u>1,230,182,894</u> | <u>1,153,689,483</u> | <u>(6,540,228)</u> | <u>76,493,411</u> |
| Total liabilities | <u>\$ 1,416,819,968</u> | <u>1,418,909,882</u> | <u>1,307,153,426</u> | <u>(2,089,914)</u> | <u>111,756,456</u> |

2009 vs. 2008

The Organization's total liabilities decreased approximately \$2.1 million.

Total liabilities comprise amounts due to the City and to the PANYNJ, accrued interest on bonds, deferred revenue, security and other deposits, postemployment benefits, outstanding bonds, and accounts payable and accrued expenses.

The \$2.1 million decrease in total liabilities is due to the following:

- \$1.6 million decrease in accrued interest payable on bonds from \$18.3 million at October 31, 2008 to \$16.7 million at October 31, 2009 resulting from lower interest rates paid on the Authority's variable-debt (see note 10). The reset rate for failed ARS is based on a fixed percentage of 30-day LIBOR which averaged 3.3% during the fiscal year ended October 31, 2008, but averaged 0.5% during the fiscal year ended October 31, 2009.

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- \$4.2 million increase in account payable and other liabilities from \$7.1 million at October 31, 2008 to \$11.3 million at October 31, 2009 which primarily relates to a PILOT credit due on the Goldman lease. The lease terms require the Authority provide Goldman with a \$6 million PILOT credit, which is due and payable in the current reporting period. The \$4.6 million outstanding credit at October 31, 2009 will be applied against future PILOT payments due to the Authority. Approximately \$1.4 million of the credit was applied as of October 31, 2009. Additionally, the lease provides for interest on the outstanding credit at a rate of 7.75% to be paid by the Authority. Approximately \$328 thousand in accrued interest associated with this liability is recorded at October 31, 2009. The above increases are offset by decreases in operating and administrative, capital and payroll accruals due to the timing of vendor payments.
- \$2.2 million decrease in amounts due to the City to \$90.5 million at October 31, 2009. The decrease relates to a decrease in the excess funds available, offset by an increase in the percentage allocable to the City year over year.
- \$13.4 million increase in amounts due to the PANYNJ relating to the Authority's agreement to pay up to \$40 million of Special Fund monies for the construction of a planned pedestrian concourse (see note 17(f)).
- \$10.7 million increase in deferred revenue from \$219.4 million at October 31, 2008 to \$230.2 million at October 31, 2009 and relates to a \$16 million lease payment received from Site 3 and an additional \$1 million accrued relating to this site. This increase is offset by revenue recognized on this and other upfront lease payments received during prior periods (see note 3(d)).
- \$10.5 million decrease in security and other deposits to \$23.6 million at October 31, 2009 relating to escrowed deposits held and remitted to the City, approximately \$14.1 million, offset by deposits received from Sites 16/17 and Site 3, \$1.4 million and \$1.8 million, respectively, and interest earnings on funds held.
- \$1.1 million increase in other post employment benefits relating to the annual normal cost incurred for current employees and interest expense, offset by actual costs for retiree benefits paid. In accordance with GASB Statement No. 45 (see note 3(i)), a \$14.9 million net accrued postretirement medical benefit liability for all eligible current and retired employees was recorded at October 31, 2008. The annual required OPEB obligation is increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the period (see note 16).
- \$19.1 million decrease in bonds outstanding relating to principal paydowns of \$17.9 million on the 2003 Series A and Series C Bonds in November 2008, \$14.6 million and \$3.38 million, respectively, and a \$1.2 million decrease due to the amortization of the net bond premium. In addition, the loss on extinguishment of debt decreased \$1.8 million. The loss is being amortized over the maturity period of the retired debt.

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

Management's Discussion and Analysis

October 31, 2009 and 2008

(Unaudited)

2008 vs. 2007

The Organization's total liabilities increased approximately \$111.8 million from \$1.31 billion to \$1.42 billion at October 31, 2008:

The \$111.8 million increase in total liabilities is primarily due to the following:

- \$9.6 million increase in the provision to the City relating to excess revenues of \$83.1 million accrued at October 31, 2007, which was paid in June 2008, compared to a \$92.7 million provision accrued at October 31, 2008.
- \$90.1 million increase in total deferred revenue from \$129.3 million at October 31, 2007 to \$219.4 million at October 31, 2008, which primarily relates to residential lease upfront payments received from Sites 23 and 24, \$56.5 million, and \$14 million received from Site 3, coupled with a \$25.7 million increase relating to the Site 23 and 24 valuation of foregone revenue for the community center and ballfield maintenance facility. The above factors are offset by revenue recognized on these and other upfront lease payments received during prior periods.
- \$8.5 million increase in security and other deposits to \$34.1 million at October 31, 2008 and relates to security deposits received from Site 2A, \$2.8 million, Site 16/17, \$4.6 million and Site 3, \$139 thousand, coupled with interest earnings on tenant deposits and other escrowed funds held by the Authority.
- \$1.2 million decrease in the total 2003 Revenue Bonds 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 2008, is recorded as a current liability at October 31, 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 total liabilities of approximately \$1.8 million at October 31, 2008.
- \$480 thousand increase in accrued interest on bonds from \$17.8 million at October 31, 2007 to \$18.3 million at October 31, 2008 and is primarily due to higher interest rates paid on variable-rate debt.
- \$1.3 million increase in accounts payable and other liabilities to \$7.1 million at October 31, 2008 primarily due to the timing of vendor payments offset by credits provided to certain condominium tenants as part of a prior period rent agreement.
- \$1.1 million increase in other postemployment benefits payable as result of increases in normal costs for current employees and interest expense, offset by the actual cost of retiree benefits paid during the fiscal year ended October 31, 2008. The resulting accrued liability balance is \$14.9 million at October 31, 2008.

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Net Assets (Deficit)

2009 vs. 2008

The net deficits at October 31, 2009 and 2008 were \$255.5 million and \$302.7 million, respectively. The net assets (deficit) invested in capital assets, net of related debt was \$9.4 million and (\$280) thousand at October 31, 2009 and 2008, 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 \$378.9 million and \$336.5 million at October 31, 2009 and 2008, respectively, 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 \$643.8 million resulting primarily from debt issued for noncapital purposes totaling 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 overall change in total net assets from October 31, 2008 represents a positive change in the deficit position of approximately \$47.2 million to \$255.5 million at October 31, 2009.

2008 vs. 2007

The net deficits at October 31, 2008 and 2007 were \$302.7 million and \$352.5 million, respectively. The net (deficit) assets invested in capital assets, net of related debt was (\$280) thousand and \$249 thousand at October 31, 2008 and 2007, respectively. The Organization's \$336.5 million of restricted net assets represents 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 \$639 million.

The overall change in total net assets from October 31, 2007 represents a positive change in the deficit position of approximately \$49.7 million to \$302.7 million at October 31, 2008.

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Management's Discussion and Analysis

October 31, 2009 and 2008

(Unaudited)

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 fiscal years ended October 31, 2009, 2008 and 2007:

| | <u>2009</u> | <u>October 31 2008</u> | <u>2007</u> | <u>2009 vs 2008</u> | <u>2008 vs 2007</u> |
|--|-------------------------|----------------------------|----------------------|-------------------------|-------------------------|
| Operating revenues: | | | | | |
| Revenues from ground leases: | | | | | |
| Base rent | \$ 58,732,238 | 57,374,979 | 52,718,959 | 1,357,259 | 4,656,020 |
| Supplemental rent | 772,225 | 715,188 | 604,069 | 57,037 | 111,119 |
| Payments in lieu of real estate taxes | 146,254,564 | 131,884,420 | 131,903,617 | 14,370,144 | (19,197) |
| Civic facilities payments and others | 18,220,364 | 21,600,614 | 21,292,003 | (3,380,250) | 308,611 |
| Total operating revenues | <u>223,979,391</u> | <u>211,575,201</u> | <u>206,518,648</u> | <u>12,404,190</u> | <u>5,056,553</u> |
| Operating expenses: | | | | | |
| Wages and related benefits | 13,992,092 | 13,225,261 | 13,960,397 | 766,831 | (735,136) |
| OPEB | 1,304,346 | 1,304,346 | 14,019,165 | — | (12,714,819) |
| Other operating and administrative | 24,440,520 | 16,333,034 | 17,609,049 | 8,107,486 | (1,276,015) |
| Depreciation and amortization | 8,965,328 | 8,494,364 | 7,997,894 | 470,964 | 496,470 |
| Total operating expenses | <u>48,702,286</u> | <u>39,357,005</u> | <u>53,586,505</u> | <u>9,345,281</u> | <u>(14,229,500)</u> |
| Operating income | <u>175,277,105</u> | <u>172,218,196</u> | <u>152,932,143</u> | <u>3,058,909</u> | <u>19,286,053</u> |
| Nonoperating revenues (expenses): | | | | | |
| Interest and other income | 16,790,117 | 21,254,895 | 25,886,969 | (4,464,778) | (4,632,074) |
| Other revenue | 581,405 | 5,390,357 | 340,150 | (4,808,952) | 5,050,207 |
| Interest expense, net | (41,472,997) | (56,392,229) | (43,308,092) | 14,919,232 | (13,084,137) |
| Provision for transfer to the PANYNJ | (13,438,007) | — | — | (13,438,007) | — |
| Provision for transfer to the City of New York | (90,537,000) | (92,736,000) | (83,100,000) | 2,199,000 | (9,636,000) |
| Total nonoperating expenses, net | <u>(128,076,482)</u> | <u>(122,482,977)</u> | <u>(100,180,973)</u> | <u>(5,593,505)</u> | <u>(22,302,004)</u> |
| Change in net assets | 47,200,623 | 49,735,219 | 52,751,170 | (2,534,596) | (3,015,951) |
| Net deficit, beginning of year | <u>(302,726,890)</u> | <u>(352,462,109)</u> | <u>(405,213,279)</u> | <u>49,735,219</u> | <u>52,751,170</u> |
| Net deficit, end of year | <u>\$ (255,526,267)</u> | <u>(302,726,890)</u> | <u>(352,462,109)</u> | <u>47,200,623</u> | <u>49,735,219</u> |

Operating Revenues

2009 vs. 2008

Overall operating revenues for the fiscal years ended October 31, 2009 and 2008 totaled \$224 million and \$211.6 million, respectively, representing a \$12.4 million increase.

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The overall operating revenue increase is primarily due to a \$14.4 million increase in PILOT from \$131.9 million for fiscal 2008 resulting from additional amounts recognized on sites completed during the current fiscal year coupled with increases in tax rates for commercial and residential sites effective January 2009. Additionally, civic facility and other revenue decreased \$3.4 million from \$21.6 million in fiscal 2008 and relates to a one-time \$3.4 million participation payment received from Site 2A in fiscal 2008 and a \$2.4 million decrease in transaction payments received on the sale of residential units at Site 16/17, offset by a \$1.1 million increase in retail and percentage rent received on Site 3 and a \$1.8 million increase in net fixed rent (percentage rent) received from the World Financial Center Tower buildings. Lastly, base rent revenue increased \$1.4 million from \$57.4 million in fiscal 2008 and relates to the recognition of an additional \$1 million relating to upfront payments received from Site 3 in fiscal 2009, approximately \$30 million.

2008 vs. 2007

Overall operating revenues for the fiscal years ended October 31, 2008 and 2007 totaled \$211.6 million and \$206.5 million, respectively, representing a \$5.1 million increase. Base rent revenue of \$57.4 million for the fiscal year ended October 31, 2008 increased \$4.7 million from October 31, 2007 due to the recognition of a pro-rata share of upfront lease payments received from Sites 23 and 24 in November 2007, approximately \$2.2 million, recognition of a pro-rata share of deferred revenue related to the Sites 23 and 24 Community Center, \$856 thousand, base rents received from newly leased sites, approximately \$2 million and scheduled increases in base rents on other leases. The above increases are offset by pre-lease escrow payments recognized during the fiscal period ended October 31, 2007 on Sites 23 and 24, approximately \$1.8 million. PILOT revenues (which account for approximately 62.3% of the Organization's operating revenues) decreased marginally as a result of a decrease in City property tax rates offset by PILOT collections from new leased parcels. Civic facility and other revenues increased approximately \$309 thousand to \$21.6 million for the fiscal year ended October 31, 2008.

Operating Expenses

2009 vs. 2008

Operating expenses totaled approximately \$48.7 million for the fiscal year ended October 31, 2009, representing a \$9.3 million increase compared to the fiscal year ended October 31, 2008. The expenses include wages and related benefits; other postretirement benefits; operating and administrative expenses such as site security and maintenance, insurance, rent, legal, and planning/design expenditures; and depreciation and amortization.

Wages and related benefits increased \$766 thousand and relates to normal increases to wage and benefit expenses in fiscal 2009.

OPEB expenses remained constant period over period and represent annual normal costs and interest expense for all eligible current employees in accordance with GASB Statement No. 45 (see note 16).

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Other operating and administrative expenses increased \$8.1 million and primarily relates to a PILOT credit due in accordance with the Goldman lease. The lease terms require the Authority provide Goldman with a \$6 million PILOT credit, which is due and payable in the current reporting period. Additionally, the lease provides for interest on the unused credit at a rate of 7.75% to be paid by the Authority. Approximately \$328 thousand in interest expense was incurred for the fiscal year ended October 31, 2009. Additionally, the annual administrative fee paid to New York State increased \$1.4 million. Other operating and administrative increases, approximately \$1.2 million, primarily resulted from outside legal fees, planning costs and fees associated with a project completed for the benefit of the City.

Amortization and depreciation expenses increased marginally by \$471 thousand resulting from increased project costs.

2008 vs. 2007

Operating expenses totaled approximately \$39.4 million for the fiscal year ended October 31, 2008, representing a \$14.2 million decrease compared to the fiscal year ended October 31, 2007.

Wages and related benefits decreased \$735 thousand and primarily relates to a \$1.3 million one-time payment issued by the Authority in fiscal 2007 representing retroactive pension plan benefits for Conservancy employees offset by normal increases to wage and benefit expenses in fiscal 2008.

OPEB expenses decreased \$12.7 million from \$14 million for the fiscal year ended October 31, 2007. In connection with the adoption of GASB Statement No. 45, the Authority expensed the actuarially derived retroactive OPEB liability for eligible current and retired employees and recorded a charge of \$14 million for the fiscal year ended October 31, 2007. The decrease is offset by normal costs and interest expense for the fiscal year ended October 31, 2008, approximately \$1.3 million (see note 16).

Other operating and administrative expenses decreased \$1.3 million and primarily relates to a decrease in costs associated with outside legal counsel, external real estate advisors and planning and design fees offset by costs incurred in fiscal 2008 for the preparation of Site 2B for the SCA.

Amortization and depreciation expenses increased marginally by \$496 thousand resulting from increased project and other asset costs.

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Management's Discussion and Analysis

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Nonoperating Revenues (Expenses)

2009 vs. 2008

Total nonoperating expenses increased \$5.6 million to \$128.1 million during the fiscal year ended October 31, 2009. Investment and other income decreased \$4.5 million over the prior fiscal year due to the composition of assets held during the year coupled with market interest rates earned. Other revenue decreased \$4.8 million and primarily relates to the transfer of assets to the Authority associated with a defaulted lessee at the north cove marina, approximately \$7.6 million, offset by a \$1.2 million transfer of north neighborhood streets to the City during fiscal 2008, and a \$0.6 million increase relating to revenue recognized from an insurance settlement (note (17(c))). Net interest expense on outstanding bonds decreased \$14.9 million and primarily relates to significantly lower interest rates paid on the 2003 variable-rate revenue bonds due to failed auctions and a continuous decrease in the 30-day LIBOR resulting in a \$21.3 million decrease in the 2003 Series B and C interest expense. LIBOR averaged 3.3% during the fiscal year ended October 31, 2008, but averaged 0.5% during the fiscal year ended October 31, 2009. The decrease in interest is offset by a \$7.1 million decrease in monthly earnings on the six interest-rate Swap agreements entered into in 2003. The counterparties pay the Authority 65% of LIBOR and receive a fixed 3.452%, on the outstanding 2003 Series C Bonds.

2008 vs. 2007

Total nonoperating expenses increased \$22.3 million to \$122.5 million during the fiscal year ended October 31, 2008. The increase was due to a \$92.7 million expense incurred during the fiscal year ended October 31, 2008 representing the provision for a transfer to the City in excess revenues; an increase of approximately \$9.6 million from the fiscal year ended October 31, 2007. Additionally, net interest expense increased approximately \$13.1 million for the fiscal year ended October 31, 2008; \$7.8 million resulting from higher interest rates paid on the variable-rate 2003 Revenue Bonds and \$5.3 million from lower interest rates earned on the six interest-rate exchange agreements entered into in 2003. Investment and other income decreased \$4.6 million over the prior fiscal year due to a \$5.2 million decrease in the net realized and unrealized gains on investments held during 2008 as compared to 2007 offset by higher interest earnings on assets held. Additionally, other revenue increased \$5.1 million and primarily relates to the transfer of North Cove Marina assets to the Authority associated with a defaulted lessee, approximately \$7.6 million, offset by a \$1.2 million transfer of north neighborhood streets to the City during fiscal 2008.

Change in Net Assets

The total net deficits at October 31, 2009 and 2008 were \$255.5 million and \$302.7 million, respectively.

The total net deficits at October 31, 2008 and 2007 were \$302.7 million and \$352.5 million, respectively.

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Management's Discussion and Analysis

October 31, 2009 and 2008

(Unaudited)

Other Information

Debt Administration – The 2003 Revenue Bonds, issued in October 2003, \$1.068 billion, included \$433 million (including a net premium) of senior lien and \$635 million on junior lien debt obligations. At October 31, 2009, the Authority was responsible for debt service of \$1.043 billion of the 2003 Revenue Bonds:

| <u>2003 Revenue Bonds</u> | <u>Outstanding debt</u> | <u>Fitch</u> | <u>Moody's</u> | <u>Standard & Poor's (S&P)</u> |
|-----------------------------|-----------------------------|--------------|----------------|--|
| 2003 Series Senior A Bonds | \$ 411,685,309 | AAA | Aaa | AAA |
| 2003 Series Junior B Bonds* | 235,000,000 | AAA | Aa3 | AAA |
| 2003 Series Junior C Bonds* | 396,625,000 | AA+ | Aa3 | AA+ |

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

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

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

Balance Sheets

October 31, 2009 and 2008

| Assets | 2009 | 2008 |
|---|------------------|---------------|
| | | |
| Current assets: | | |
| Bank deposits | \$ 597,485 | 298,339 |
| Investments (note 3(e)) | 4,083,852 | 7,133,857 |
| Restricted assets: | | |
| Rents and other receivables (net of allowance for doubtful accounts of \$68,141 in 2009 and \$80,980 in 2008) (note 12) | 16,806,980 | 13,740,606 |
| 2003 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 10) | 148,234,383 | 161,190,959 |
| Corporate-designated and escrowed funds (notes 3(e) and 16) | 43,676,090 | 57,609,573 |
| Total current assets | 213,398,790 | 239,973,334 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| 2003 Revenue Bond Resolution Funds (notes 3(e), 8, 9, and 10) | 138,384,813 | 179,196,550 |
| Corporate-designated funds (notes 3(e) and 16) | 224,730,965 | 123,575,663 |
| Residential lease required funds (note 3(e)) | 18,992,184 | 15,589,335 |
| Corporate-designated, escrowed and OPEB funds (notes 3(e) and 16) | 57,947,296 | 60,110,095 |
| Deferred costs (note 3(g)): | | |
| Bond issuance costs, less accumulated amortization of \$14,294,274 in 2009 and \$12,855,800 in 2008 | 36,468,774 | 37,907,248 |
| Costs of leases, less accumulated amortization of \$881,450 in 2009 and \$817,307 in 2008 | 3,798,078 | 3,862,220 |
| Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3(c), and 4) | 461,548,193 | 449,568,884 |
| Other assets | 6,024,608 | 6,399,663 |
| Total noncurrent assets | 947,894,911 | 876,209,658 |
| Total assets | \$ 1,161,293,701 | 1,116,182,992 |

See accompanying notes to basic financial statements.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Balance Sheets

October 31, 2009 and 2008

| Liabilities and Net Deficit | 2009 | 2008 |
|---|-------------------------|----------------------|
| Current liabilities: | | |
| Accrued interest on bonds | \$ 16,732,457 | 18,301,915 |
| Accounts payable and other liabilities (note 13) | 11,305,786 | 7,087,189 |
| Due to the City of New York (note 11) | 90,537,000 | 92,736,000 |
| Due to the PANYNJ (note 17(f)) | 13,438,007 | — |
| Deferred revenue (note 3(d)): | | |
| PILOT revenue | 25,367,590 | 22,422,288 |
| Base rent revenue and other revenue | 13,673,360 | 12,625,023 |
| Security and other deposits | 3,693,102 | 17,609,573 |
| 2003 Revenue Bonds (notes 8, 9, and 10) | 18,430,000 | 17,945,000 |
| Total current liabilities | <u>193,177,302</u> | <u>188,726,988</u> |
| Noncurrent liabilities: | | |
| Deferred revenue (note 3(d)): | | |
| Base rent revenue and other revenue | 191,144,394 | 184,382,843 |
| Security and other deposits | 19,879,295 | 16,442,500 |
| OPEB (note 16) | 16,032,763 | 14,943,967 |
| Bonds outstanding (notes 8, 9 and 10): | | |
| 2003 Revenue Bonds, less accumulated amortization of \$7,090,663 in 2009 and \$5,916,925 in 2008 | 1,024,880,309 | 1,044,484,046 |
| Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds | <u>(28,294,095)</u> | <u>(30,070,462)</u> |
| Total noncurrent liabilities | <u>1,223,642,666</u> | <u>1,230,182,894</u> |
| Total liabilities | <u>1,416,819,968</u> | <u>1,418,909,882</u> |
| Net assets (deficit) (note 3(f)): | | |
| Invested in capital assets, net of related debt | 9,354,597 | (280,135) |
| Restricted: | | |
| Debt service | 60,019,940 | 52,010,906 |
| Under bond resolutions and other agreements | 318,915,703 | 284,513,119 |
| Unrestricted deficit | <u>(643,816,507)</u> | <u>(638,960,780)</u> |
| Total net deficit | <u>(255,526,267)</u> | <u>(302,716,890)</u> |
| Total liabilities and net deficit | <u>\$ 1,161,293,701</u> | <u>1,116,192,992</u> |

See accompanying notes to basic financial statements.

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Statements of Revenues, Expenses, and Changes in Net Deficit

Years ended October 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|-------------------------|----------------------|
| Operating revenues: | | |
| Revenues from ground leases (notes 3(d), 5, 6, and 7): | | |
| Base rent | \$ 58,732,238 | 57,374,979 |
| Supplemental rent | 772,225 | 715,188 |
| Payments in lieu of real estate taxes | 146,254,564 | 131,884,420 |
| Civic facilities payments and other | 18,220,364 | 21,600,614 |
| Total operating revenues | <u>223,979,391</u> | <u>211,575,201</u> |
| Operating expenses: | | |
| Wages and related benefits | 13,992,092 | 13,225,261 |
| OPEB (note 16) | 1,304,346 | 1,304,346 |
| Other operating and administrative | 24,440,520 | 16,333,034 |
| Depreciation of project assets | 6,042,249 | 5,463,430 |
| Other depreciation and amortization | 2,923,079 | 3,030,934 |
| Total operating expenses | <u>48,702,286</u> | <u>39,357,005</u> |
| Operating income | <u>175,277,105</u> | <u>172,218,196</u> |
| Nonoperating revenues (expenses): | | |
| Interest income on funds relating to: | | |
| 2003 Revenue Bonds (note 10) | 3,441,684 | 4,535,858 |
| Corporate-designated, escrowed and OPEB funds | 3,938,408 | 4,493,680 |
| Realized and unrealized gains and losses | 9,410,025 | 12,225,357 |
| Other revenue | 581,405 | 5,390,357 |
| Interest expense relating to: | | |
| 2003 Swap Agreements – net expense | (11,914,862) | (4,972,036) |
| 2003 Revenue Bonds (note 10) | (27,781,769) | (49,643,827) |
| Loss from extinguishment | (1,776,366) | (1,776,366) |
| Provision for transfer to the PANYNJ (note 17(f)) | (13,438,007) | — |
| Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 11) | (90,537,000) | (92,736,000) |
| Total nonoperating expenses | <u>(128,076,482)</u> | <u>(122,482,977)</u> |
| Change in net assets | 47,200,623 | 49,735,219 |
| Net deficit, beginning of year | <u>(302,726,890)</u> | <u>(352,462,109)</u> |
| Net deficit, end of year | <u>\$ (255,526,267)</u> | <u>(302,726,890)</u> |

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended October 31, 2009 and 2008

| | 2009 | 2008 |
|---|----------------|---------------|
| Cash flows from operating activities: | | |
| Cash receipts from: | | |
| Tenant payments | \$ 228,998,018 | 275,776,961 |
| Miscellaneous receipts | 1,357,984 | 1,386,326 |
| Total cash receipts from operating activities | 230,356,002 | 277,163,287 |
| Cash payments for: | | |
| Salaries and benefits | (14,218,270) | (13,397,554) |
| Services and supplies | (19,000,729) | (17,343,322) |
| Total cash payments from operating activities | (33,218,999) | (30,740,876) |
| Net cash provided by operating activities | 197,137,003 | 246,422,411 |
| Cash flows from noncapital financing activities: | | |
| Payments for Battery Park City Library | (23,064) | (101,101) |
| Receipts from lessees – site security deposits | 3,226,341 | 7,592,601 |
| Payment to Irish Hunger Memorial Foundation | — | (298,285) |
| Receipts from NYC School Construction Authority | — | 1,640,829 |
| Payments to NYC School Construction Authority | — | (2,858,060) |
| Receipt from NYC for Pier A | 3,175,535 | — |
| Payments to Contractors for Pier A | (2,738,417) | — |
| Payments to New York City | (106,834,602) | (83,100,000) |
| Net cash used in noncapital financing activities | (103,194,207) | (77,124,016) |
| Cash flows from capital and related financing activities: | | |
| Development costs – site improvements and construction | (18,958,720) | (28,549,820) |
| Capital asset expenditures | (986,740) | (827,420) |
| Receipts for development/capital asset expenditures | 117,427 | — |
| Payments for bond issuance costs | (511,529) | — |
| Auction fees paid for variable debt | (1,440,218) | (1,634,791) |
| Payment made on the 2003 Swap Agreement | (13,739,693) | (13,808,000) |
| Payments received on the 2003 Swap Agreement | 2,618,219 | 9,086,301 |
| Principal payments on the 2003 Revenue Bonds | (17,945,000) | — |
| Interest paid on 2003 Senior Revenue Bonds | (19,702,814) | (19,855,799) |
| Interest paid on 2003 Junior Revenue Bonds | (9,313,857) | (28,806,818) |
| Net cash used in capital and related financing activities | (79,862,925) | (84,396,347) |
| Cash flows from investing activities: | | |
| Interest and realized gains received on investment securities | 14,086,452 | 21,018,744 |
| Fair value adjustment – short term investments | (50,454) | (209,308) |
| Redemption and sale of investment securities | 780,413,166 | 668,450,126 |
| Purchase of investment securities | (796,988,164) | (693,534,021) |
| Net cash used in investing activities | (2,539,000) | (4,274,459) |
| Increase in cash and cash equivalents | 11,540,871 | 80,627,589 |
| Cash and cash equivalents, beginning of year | 330,124,536 | 249,496,947 |
| Cash and cash equivalents, end of year | \$ 341,665,407 | 330,124,536 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 175,277,105 | 172,218,196 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,965,328 | 8,494,364 |
| Bad debt expense | (12,725) | (87,244) |
| Other | (116,879) | (1,303,364) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in rents and other receivables | (3,585,567) | 215,565 |
| Decrease in other assets | 68,478 | 10,217 |
| Increase in accounts payable and other liabilities | 4,758,336 | 411,339 |
| Decrease in security and other deposits | (61,059) | — |
| Increase in OPEB | 1,088,796 | 1,091,756 |
| Increase in deferred revenue | 10,755,190 | 65,371,582 |
| Net cash provided by operating activities | \$ 197,137,003 | 246,422,411 |
| Reconciliation to cash and cash equivalents, end of year: | | |
| Bank deposits | \$ 597,485 | 298,339 |
| Cash and cash equivalents (note 3) | (771,526) | 15,660,627 |
| Investments with less than 91-day maturities at purchase (note 3) | 341,839,448 | 314,165,570 |
| Cash and cash equivalents, end of year | \$ 341,665,407 | 330,124,536 |

See accompanying notes to basic financial statements.

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(A Component Unit of the State of New York)

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(1) General

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

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

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

The Act sets forth the purposes of the Authority, including: the improvement of the Battery Park City project (the Project) area; the creation in such area, in cooperation with the City of New York (the City) and the private sector, of a mixed commercial and residential community; and the making of loans secured by first mortgages to any housing company organized to provide housing within the project area pursuant to the New York State Private Housing Finance Law. The Act also authorizes the Authority to pledge and assign revenues to secure financing for low- and moderate-income housing developments outside the project area, as well as issue bonds for the purposes of furthering the development of a commodities and futures exchange facility in Battery Park City, repaying certain State appropriations, and making 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. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction, by private developers, of approximately 10.2 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units, including a maintenance facility and approximately 8,500 residential units (see notes 5, 6, and 7).

Approximately 2.2 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26 is substantially complete. Construction is currently underway for 471 residential units

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located on Sites 23 and 24, and a public school on Site 2B. In addition, the Authority also owns condominium units and controls significant air rights throughout the Project. Ground rents, payments in lieu of real estate taxes (PILOT), and other lease payments are received under ground leases, all expiring in 2069. All sites on the Project have been formerly designated for development.

(3) Summary of Significant Accounting Policies

(a) *Financial Reporting*

The 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 they are earned and expenses are recognized in the period they are incurred. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides proprietary activities with the option of implementing the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with GASB pronouncements. The Organization has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

(b) *Use of Estimates*

The preparation of financial statements in accordance with 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. Estimates include reserves for doubtful accounts, depreciation and other postemployment benefits. Actual results could differ from those estimates.

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(c) **Project Assets**

Costs incurred by the Authority in developing the Project as of October 31, 2009 and 2008 are capitalized as project assets and classified as follows:

| | Balance at October 31, 2008 | Additions | Deletions | Balance at October 31, 2009 |
|--|--|------------------|------------------|--|
| Land | \$ 83,015,653 | — | — | 83,015,653 |
| Site improvements | 350,174,709 | 7,436,241 | 30,655 | 357,580,295 |
| Residential building and condominiums | 87,750,081 | 10,614,054 | — | 98,364,135 |
| Total project assets | 520,940,443 | 18,050,295 | 30,655 | 538,960,083 |
| Less accumulated depreciation: | | | | |
| Site improvements | 62,584,618 | 4,749,040 | 1,918 | 67,331,740 |
| Residential building and condominiums | 8,786,941 | 1,293,209 | — | 10,080,150 |
| Total accumulated depreciation | 71,371,559 | 6,042,249 | 1,918 | 77,411,890 |
| Net project assets | \$ 449,568,884 | 12,008,046 | 28,737 | 461,548,193 |
| | | | | |
| | Balance at October 31, 2007 | Additions | Deletions | Balance at October 31, 2008 |
| Land | \$ 83,015,653 | — | — | 83,015,653 |
| Site improvements | 334,671,507 | 19,501,138 | 3,997,936 | 350,174,709 |
| Residential building and condominiums | 43,268,009 | 44,482,072 | — | 87,750,081 |
| Total project assets | 460,955,169 | 63,983,210 | 3,997,936 | 520,940,443 |
| Less accumulated depreciation: | | | | |
| Site improvements | 58,780,470 | 4,244,080 | 439,932 | 62,584,618 |
| Residential building and condominiums | 7,567,591 | 1,219,350 | — | 8,786,941 |
| Total accumulated depreciation | 66,348,061 | 5,463,430 | 439,932 | 71,371,559 |
| Net project assets | \$ 394,607,108 | 58,519,780 | 3,558,004 | 449,568,884 |

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

(d) Revenue from Ground Leases

Revenue from ground leases is recognized as income as such amounts become receivable under the provisions of each lease, except that PILOT and upfront payments received in advance of the period to which they relate are deferred and recognized as income during future periods. Given the nature of the Authority's operations, revenue from ground leases and related fees and agreements is considered operating revenue. All other revenues are considered nonoperating. In accordance with the lease terms, the Authority received upfront lease payments in fiscal periods prior to 2009 of \$42 million, \$60 million, \$25.5 million, \$22.5 million, \$33.9 million and \$4.75 million from residential buildings on Site 22, Site 16/17, Site 3, Site 23, Site 24 and Site 2A, respectively. Additionally, the Authority received \$16 million from Site 3 during the fiscal year ended 2009. 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 are recognized through May 2011 in accordance with the lease terms. Amounts not recognized are reported as deferred revenue in current and noncurrent liabilities.

In August 2005, the Site 26 commercial ground lease was signed, providing for a one-time lump-sum base rent payment of approximately \$161 million to be deposited with an escrow agent. The deposit was made in June 2007 and the total cumulative escrow balance including interest totaling \$168.8 million was paid to the Authority in January 2010. Base rent revenue relating to the one-time payment is being recognized on a pro-rata basis over the lease term.

(e) Investments and Deposits

The Organization carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Deposit and inherent risks that could affect the Organizations 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 U.S. Treasury Securities are backed by the full faith and credit of the U.S. government; investments in commercial paper maintain a credit rating no lower than 'A-1' grade; investments in federal agency and mortgage backed securities have the highest credit rating of 'AAA' and are supported by the U.S. government or its agencies; investments in municipal bonds are supported by Fannie Mae and rated 'AAA'. All other deposits are fully collateralized or backed by the Federal Deposit Insurance Corporation (FDIC) or letters of credit. All investments held in funds and accounts

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established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority's name.

Total investments and deposits held by the Organization at October 31, 2009 and 2008 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:

| | 2009 | | | 2008 | | |
|---|----------------|-------------|---------------------------------------|----------------|-------------|---------------------------------------|
| | Cost | Fair value | Weighted average maturity (years) (a) | Cost | Fair value | Weighted average maturity (years) (a) |
| U.S. Treasury securities | | | | | | |
| Treasury Bills | \$ 194,492,154 | 194,605,252 | 0.10 | \$ 530,729 | 530,734 | 0.13 |
| Treasury Bonds | 18,740,783 | 21,408,047 | 5.74 | 29,608,922 | 32,644,400 | 5.56 |
| Treasury Strips | 337,562 | 696,754 | 7.49 | 1,597,217 | 2,708,182 | 6.15 |
| Total U.S. Treasury securities | 213,570,499 | 216,710,053 | | 31,736,868 | 35,883,316 | |
| Commercial paper | — | — | — | 156,690,912 | 157,257,220 | 0.07 |
| Federal agency securities | 378,003,749 | 382,200,384 | 0.64 | 352,187,646 | 353,467,636 | 0.70 |
| Federal agency mortgage-backed securities | 24,794,069 | 26,052,889 | 2.82 | 38,981,557 | 38,182,427 | 3.52 |
| Municipal bonds | 10,700,000 | 10,753,970 | 2.98 | 3,280,000 | 3,280,000 | 0.02 |
| Total investments | 627,068,317 | 635,717,296 | 0.78 | 582,876,983 | 588,070,599 | 1.00 |
| Cash and cash equivalents | 332,287 | 332,287 | | 16,334,920 | 16,335,433 | |
| Total investments and deposit: | \$ 627,400,604 | 636,049,583 | | \$ 599,211,903 | 604,406,032 | |

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

The Organization's permitted investments include: (i) 100% U.S. government guaranteed securities (U.S. Treasury notes, bonds, strips, T-bills, GNMA securities); (ii) notes, bonds, debentures, and mortgages of U.S. government-sponsored agencies, provided that their obligations receive the highest credit rating (Fannie Mae, Freddie Mac); (iii) obligations of any corporation organized under the laws of any state in the United States maturing within 270 days (commercial paper), provided that such obligations receive the highest rating of two independent rating services which as of October 31, 2009 were A1/P1; and (iv) municipal bonds issued by New York authorities that

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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 that can adversely affect the fair value of such investments. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. Effective duration takes into account the change in cash flow expectations of securities with embedded options such as callable bonds and mortgage-backed securities. The interest rate risk of the 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 or external parties; or both, for specific purposes such as budget reserves, the Special Fund (see note 10), project and operating contingency reserves, restoration reserves, insurance reserves, arbitrage reserves, and funds designated for the payment of medical benefits to the Authority's retirees.

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

The Conservancy's bank deposits are guaranteed by the FDIC up to \$250,000 through December 31, 2013. Additionally, collateral has been set aside by the custodian bank for balances in excess of \$250,000. All cash balances are placed into overnight interest bearing accounts.

(f) Net Assets (Deficit)

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 Organization; and unrestricted deficits, consisting of net assets that are not classified as investment in capital assets, net of related debt or restricted, and result from debt issued for noncapital purposes 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. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, and then unrestricted resources as they are needed.

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(g) *Deferred Costs*

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

(h) *Statements of Cash Flows*

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

(i) *Defined Postemployment Benefits*

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement establishes standards for the measurement, recognition, and financial statement presentation of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. 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 16).

(j) *Reclassifications*

Certain 2008 restricted net asset amounts were reclassified as an unrestricted deficit.

(k) *New Accounting Standards*

- In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement established accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. GASB 49 was effective for financial statements for periods beginning after December 15, 2007, and was thus implemented by the Organization for its fiscal year ended October 31, 2009. There was no impact on the Organization's financial statements as a result of implementing GASB 49.
- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 are effective for financial statements for periods beginning after June 15, 2009, the Organization's fiscal year ended

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October 31, 2010. The Organization has not completed the process of evaluating GASB 51, but does not expect GASB 51 to have a material impact on its financial statements.

- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred, whereas for others, the changes in fair value are recognized in the current period. The requirements for GASB 53 are effective for financial statements for periods beginning after June 15, 2009, the Organization's fiscal year ended October 31, 2010. The Organization has not completed the process of evaluating the impact of GASB 53 on its financial statements.

(4) Rights of City to Reacquire Project Site

The fee interest in the Project site formerly owned by the City was conveyed to the Authority in the early 1980s for a nominal consideration. The City has the right to reacquire the Project site at any time, subject to the then-existing leases, for a nominal consideration after: (a) all notes, bonds (other than bonds issued to finance mortgage loans for the Gateway Plaza project), and other indebtedness incurred by the Authority, or for which the Authority's revenues have been pledged, have been repaid or defeased; and (b) satisfaction or provision for payment of its contractual obligations and other contingent liabilities. The City may provide for repayment or defeasance of indebtedness incurred by the Authority under its various bond resolutions. As of October 31, 2009, the City had not expressed its intent regarding its right to reacquire the Project site.

(5) Commercial Development

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

As of October 31, 2009, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately \$1.04 billion over the remaining lease terms in the following annual amounts: (i) base rent of \$17,000,000 per annum from 2010 through 2069 and (ii) additional base rent of \$5,561,220 per annum payable by the BFP-affiliated lessees (2000 to 2014) (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

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property located in the borough of Manhattan, unless alternative PILOT arrangements are set forth in the ground lease. The City determines the assessed value of each building. Each lessee, or certain authorized tenants of the lessee, has the right to appeal the assessment to the City Tax Commission and bring tax certiorari proceedings in State court to seek reductions in the amounts of such assessments. A number of administrative and judicial appeals on some of the parcels are currently pending for the current and prior tax years. While any such proceedings are pending, the lessee is required to pay PILOT based upon the assessments established by the City. If a lessee is successful in any such proceedings, subsequent rental payments to the Authority will be reduced to the extent necessary to offset the prior overpayment of PILOT as a result of the revised assessment.

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

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

In August 2005, a lease was signed by Goldman Sachs Headquarters LLC (Goldman) for the development of approximately 2.2 million square feet of trading and office headquarter space on Site 26 in the north neighborhood. The Site 26 ground lease requires that a \$161 million lump sum rent payment be deposited with an escrow agent, which was made in June 2007 and released to the Authority in January 2010 in the amount of \$168.8 million including interest. PILOT payments under the lease are made subject to certain caps and exemptions to Goldman. In addition, in December 2005, Goldman made a \$3.5 million lease payment to the Authority which is held in escrow for the benefit of the local community board to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. Approximately \$346 thousand was disbursed to the NYC Public Library by the Authority through October 31, 2009. Additionally, a requisition request from the NYC Public Library for \$1.9 million was received in January 2010.

(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

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which developers constructed 18 buildings consisting of approximately 3,798 condominium and rental units, including 114 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. The final site in the south neighborhood was designated as a public school and is currently under construction. In the north neighborhood, 9 buildings consisting of approximately 2,515 units have been constructed. Construction is underway for 2 buildings on Sites 23 and 24 comprising 471 units. All the leases expire in 2069.

Future base rent payments are fixed through the first lease appraisal date, which varies among the projects, but is generally the first day of the calendar month next succeeding the twentieth or twenty-fifth anniversary of the date on which a temporary certificate of occupancy is issued. For lease years subsequent to the first appraisal date, the leases provide for base rent payments, subject to limitations, based upon a percentage of the fair market value of the land, but generally not less than an amount in excess of the highest base rent payable for any lease year ending prior to the first appraisal date. Two leases were modified in fiscal 2009 to provide for a 25% increase in ground rent spread over 25 years. This modification reduced the ground rent from the original lease terms at 6% of fair market value. With respect to lease years subsequent to any other reappraisal dates, base rent may not be less than an amount in excess of base rent payable for the lease year immediately prior thereto. Reappraisal dates occur every 15 years, commencing on the fifteenth anniversary of the first appraisal date.

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

Certain residential leases also provide for supplemental rental payments, generally through the first appraisal date, which are to be paid if the PILOT payments are less than the minimum specified in each lease (see note 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 taxes starting on February 16, 2020; and (iii) amounts for the operation and maintenance of the civic facilities. The lease, as amended, expires in 2040 and may be extended at the option of the tenant through 2069. In July 2009, the Gateway

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

On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately \$60 million, including an upfront lease payment of \$56.5 million. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds from the sale of condominium units will be received by the Authority over the lease term. The ground lease tenants are also required to construct the core and shell of a community center and ball field maintenance facility, 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, 2010 through 2014 and thereafter are as follows (in 000s):

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>Thereafter</u> | <u>Total</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| Commercial development: | | | | | | | |
| Base rent | \$ 24,743 | 25,098 | 25,114 | 25,130 | 24,218 | 1,221,048 | 1,345,351 |
| Residential developments: | | | | | | | |
| Gateway project base rent | 305 | 305 | 305 | 305 | 305 | 7,839 | 9,364 (a) |
| South residential: | | | | | | | |
| Base rent | 13,466 | 14,490 | 17,218 | 17,754 | 17,901 | 1,322,179 | 1,403,008 |
| Other minimum payments | 8,242 | 7,373 | 2,049 | — | — | — | 17,664 |
| Subtotal south residential | 21,708 | 21,863 | 19,267 | 17,754 | 17,901 | 1,322,179 | 1,420,672 |
| North residential: | | | | | | | |
| Base rent | 3,546 | 3,654 | 3,706 | 3,760 | 3,814 | 371,003 | 389,483 |
| Other minimum payments | 4,148 | 4,203 | 4,457 | 4,810 | 5,414 | 36,489 | 59,521 |
| Subtotal north residential | 7,694 | 7,857 | 8,163 | 8,570 | 9,228 | 407,492 | 449,004 |
| Total | \$ 54,450 | 55,123 | 52,849 | 51,759 | 51,652 | 2,958,558 | 3,224,391 |

(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

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leases for which the buildings have not been built by developers and are not fully occupied are not included. Revenues to be paid on a percentage basis and other like contingent payments are also excluded.

(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 and held by trustees are as follows at October 31, 2009 and 2008:

| October 31, 2009 | | | | |
|---------------------------|------------------------------------|------------------------|------------------------|--------------------|
| 2003 Revenue Bonds | | | | |
| | General Bond Resolution | Senior Bond | Junior Bond | Total |
| Debt Service Funds | \$ — | 25,067,418 | 42,464,170 | 67,531,588 |
| Reserve Fund | 69,958,478 | — | — | 69,958,478 |
| Project Costs Fund | 180,263 | — | — | 180,263 |
| Project Operating Fund | 9,620,846 | — | — | 9,620,846 |
| Residual Fund | 1,744,015 | — | — | 1,744,015 |
| Pledged Revenue Fund | 137,584,006 | — | — | 137,584,006 |
| | <u>\$ 219,087,608</u> | <u>25,067,418</u> | <u>42,464,170</u> | <u>286,619,196</u> |

| October 31, 2008 | | | | |
|---------------------------|------------------------------------|------------------------|------------------------|--------------------|
| 2003 Revenue Bonds | | | | |
| | General Bond Resolution | Senior Bond | Junior Bond | Total |
| Debt Service Funds | \$ — | 27,730,863 | 33,342,700 | 61,073,563 |
| Reserve Fund | 68,647,319 | — | — | 68,647,319 |
| Project Costs Fund | 10,163,406 | — | — | 10,163,406 |
| Project Operating Fund | 12,080,691 | — | — | 12,080,691 |
| Residual Fund | 5,469,822 | — | — | 5,469,822 |
| Pledged Revenue Fund | 182,952,708 | — | — | 182,952,708 |
| | <u>\$ 279,313,946</u> | <u>27,730,863</u> | <u>33,342,700</u> | <u>340,387,509</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, and 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 Debt Service Reserve Funds and dedicated funds established under the 2003 Revenue Bond Resolutions are used to pay debt service on the respective bonds. To the extent not utilized to fund any future debt service deficiencies, will be available to retire bonds issued there under in the last year of bond maturity.

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

Amounts in the 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

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

The Act, as amended, also authorizes the Authority to pledge and assign excess revenues, as defined, to 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.

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The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed \$110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of October 31, 2009, no bonds have been issued for this purpose.

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

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

(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 \$564,891,773 of bonds (including \$343,017,495 of the 2003 Series A Bonds, \$50,871,502 of the 2003 Series B Bonds, and \$171,002,776 of the 2003 Series C Bonds) was issued to refund all the outstanding 1993 Revenue Refunding Bonds, including \$324,045,000 of the 1993 Series A Senior Bonds, \$115,420,000 of the 1993 Series A Junior Bonds, and \$53,075,000 of the Junior Revenue Bonds, Series 2000.
- \$95,755,874 of the 2003 Series C Bonds was issued to advance refund \$74,385,000 of outstanding Junior Revenue Bonds, Series 1996A.
- \$115,160,363 of the 2003 Series B Bonds was issued to finance certain infrastructure and other capital improvements.

In conjunction with the refunding of all of the outstanding revenue bonds, the Authority issued \$292,537,963 of bonds (including \$90,328,477 of the 2003 Series A Bonds, \$68,968,136 of the 2003 Series B Bonds, and \$133,241,350 of the 2003 Series C Bonds) to current refund \$250,390,000 of outstanding 1993 HNYC Senior Bonds (see note 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 to retire the bonds. In addition, approximately \$90.4 million of bond proceeds was made available to the Authority to facilitate development and maintenance of the Project.

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The refundings resulted in the reacquisition price exceeding the net carrying amount of the refunded debt by approximately \$39 million. The difference between the reacquisition price and the net carrying amount of the refunded debt was reflected on the Authority's balance sheet as an unamortized loss on extinguishment of debt and is being deferred over the life of the old debt with a pro-rata charge to interest expense for the fiscal years ended October 31, 2009 and 2008.

At October 31, 2009, the 2003 Series A Bonds consist of the following serial bonds:

| | <u>Coupon rates</u> | <u>Principal amounts</u> | <u>Interest</u> |
|-------------------------------|-------------------------|------------------------------|--------------------|
| Fiscal year ended October 31: | | | |
| 2010 | 2.375 – 5.00% | \$ 12,980,000 | 19,317,879 |
| 2011 | 2.625 – 5.00 | 13,645,000 | 18,821,184 |
| 2012 | 3.00 – 5.50 | 14,375,000 | 18,236,211 |
| 2013 | 3.40 – 5.50 | 15,205,000 | 17,531,970 |
| 2014 | 3.50 – 5.50 | 16,140,000 | 16,735,258 |
| 2015 – 2019 | 3.65 – 5.25 | 97,335,000 | 69,626,585 |
| 2020 – 2024 | 4.00 – 5.25 | 128,305,000 | 40,528,374 |
| 2025 – 2027 | 4.60 – 5.00 | 93,795,000 | 7,168,347 |
| | | <u>\$ 391,780,000</u> | <u>207,965,808</u> |

The Authority issued certain of the 2003 Series A Bonds at a discount and others at a premium, resulting in an overall net premium of approximately \$27 million, which is being amortized using the straight-line basis over the lives of the 2003 Series A Bonds. At October 31, 2009 and 2008, the unamortized net bond premium was approximately \$19.9 million and \$21.1 million, respectively. The Authority paid \$14.57 million in principal payments in November 2008.

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

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At October 31, 2009, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

| | <u>Junior B</u> | | <u>Junior C</u> | | <u>Total</u> | |
|-------------------------------|-----------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| Fiscal year ended October 31: | | | | | | |
| 2010 | \$ — | 1,161,207 | 5,450,000 | 1,952,447 | 5,450,000 | 3,113,654 |
| 2011 | — | 1,161,207 | 5,450,000 | 1,925,454 | 5,450,000 | 3,086,661 |
| 2012 | — | 1,161,207 | 5,450,000 | 1,898,461 | 5,450,000 | 3,059,668 |
| 2013 | — | 1,161,207 | 5,450,000 | 1,871,468 | 5,450,000 | 3,032,675 |
| 2014 | — | 1,161,207 | 5,450,000 | 1,844,475 | 5,450,000 | 3,005,682 |
| 2015 – 2019 | — | 5,806,035 | 27,250,000 | 8,817,481 | 27,250,000 | 14,623,516 |
| 2020 – 2024 | — | 5,806,035 | 29,725,000 | 8,123,030 | 29,725,000 | 13,929,065 |
| 2025 – 2029 | — | 5,806,035 | 105,825,000 | 6,971,121 | 105,825,000 | 12,777,156 |
| 2030 – 2034 | 600,000 | 5,804,552 | 206,575,000 | 2,382,134 | 207,175,000 | 8,186,686 |
| 2035 – 2039 | 191,400,000 | 3,501,163 | — | — | 191,400,000 | 3,501,163 |
| 2040 | 43,000,000 | 106,238 | — | — | 43,000,000 | 106,238 |
| Total | <u>\$ 235,000,000</u> | <u>32,636,093</u> | <u>396,625,000</u> | <u>35,786,071</u> | <u>631,625,000</u> | <u>68,422,164</u> |

The 2003 variable-rate Junior Revenue Bonds were issued as Auction Rate Securities (ARS) and the principal and interest are insured by municipal bond insurance policies. Interest rates on these bonds are reset periodically through an auction process in the secondary market. The 2003 Series B Bonds reset on a 7-day auction cycle and the 2003 Series C Bonds reset on a 35-day auction cycle. The Authority paid \$3.375 million in principal payments on the 2003 Series C Bonds in November 2008.

Interest in the above table is based on actual auction rates closest to October 31, 2009, which were 0.488%, 0.486%, and 0.488% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 0.49%, 0.488%, 0.486%, 0.492%, and 0.488% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

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

In February 2008, auctions for the Authority's ARS in the secondary market began to fail intermittently due to insufficient investor orders to support the product. 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 2003 Series B and C Bonds. The rates applied to the 30-day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from November 2008 through October 2009 ranged from a low of 0.486% to a high of 5.549% on the 2003 Series B Bonds and from a low of 0.486% to a high of 8.718% on the 2003 Series C Bonds. The 30-day LIBOR rate dropped precipitously beginning November 2008 and remained relatively low for the remainder of the fiscal year.

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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 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 Swap agreements, the Authority owes interest to the Swap counterparties calculated at a fixed rate of 3.452% and paid semiannually. In return, on a monthly basis, the counterparties pay the Authority floating-rate interest equal to 65% of the 30-day LIBOR.

| | 2003 Series C principal | Interest rate swaps | | |
|-------------------------------|------------------------------------|----------------------------|-------------------|----------------------|
| | | Payment | Receipts | Net payment |
| Fiscal year ended October 31: | | | | |
| 2010 | \$ 5,450,000 | (13,597,428) | 620,403 | (12,977,025) |
| 2011 | 5,450,000 | (13,409,294) | 611,760 | (12,797,534) |
| 2012 | 5,450,000 | (13,221,160) | 603,116 | (12,618,044) |
| 2013 | 5,450,000 | (13,033,026) | 594,472 | (12,438,554) |
| 2014 | 5,450,000 | (12,844,892) | 585,829 | (12,259,063) |
| 2015 – 2019 | 27,250,000 | (61,402,450) | 2,799,488 | (58,602,962) |
| 2020 – 2024 | 29,725,000 | (56,562,315) | 2,575,149 | (53,987,166) |
| 2025 – 2029 | 105,825,000 | (48,533,826) | 2,145,937 | (46,387,889) |
| 2030 – 2034 | 206,575,000 | (16,565,717) | 597,288 | (15,968,429) |
| | <u>\$ 396,625,000</u> | <u>(249,170,108)</u> | <u>11,133,442</u> | <u>(238,036,666)</u> |

The above table includes payments based on the Authority's Swap payment obligation fixed at 3.452% of bond principal outstanding while receipts are based on 65% of the 30-day LIBOR on October 31, 2009 (65% of 0.244% or 0.1586%). Receipts are projected based on the latest interest rate at October 31, 2009, but can vary monthly.

The Swaps had a negative fair market value of approximately \$50.7 million at October 31, 2009. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each Swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the Swaps.

The Authority is exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "A" 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.

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The Swaps expose the Authority to basis risk given interest payments on the 2003 Series C Bonds significantly exceed the 65% of LIBOR receipts for the fiscal year ended October 31, 2009.

Debt service on the 2003 Series A Bonds and on the 2003 Series B and 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 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. In order to assure the ability of the Authority to develop and operate the Project, the Authority established a Special Fund to the credit of which shall be deposited approximately \$46 million. The Special Fund was funded from the proceeds of the former special fund created pursuant to the 1993 Master Revenue Resolution upon the dissolution of such existing special fund in connection with the 2003 refunding of outstanding Authority bonds and the issuance of the additional bonds. The Special Fund may only be used by the Authority, as necessary, (i) to pay debt service obligations of the Authority on its bonds or (ii) for purposes that are jointly agreed upon between the City and the Authority, as the same may be amended from time to time. Neither the Special Fund nor the moneys on deposit from time to time therein may be pledged to secure any obligation pursuant to any Resolutions authorizing additional bonds or other bonds or debt obligations of the Authority. Income and earnings actually received by or for the account of the Authority from investments of moneys on deposit from time to time in the Special Fund shall be treated as revenues (see note 17(f)).

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

The Authority entered into a Settlement Agreement with the City, which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 Revenue Bonds, and on any bonds issued to finance the HNYC housing program (see notes 9 and 10), 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.

The \$92.7 million and \$83.1 million provided for the transfer to the City during the fiscal years ended October 31, 2008 and 2007 were paid in June 2009 and 2008, respectively. A provision in the amount of \$90.5 million was charged to operations for the fiscal year ended October 31, 2009. The Authority retained

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approximately \$50.8 million of fiscal year 2009 and \$98.7 million of fiscal year 2008 excess revenues to be spent in a manner and for such purposes as the Authority and the City shall jointly decide.

In January 2007, the City and the Authority signed an agreement to increase the amount of bonds or other debt obligations the Authority may issue for infrastructure and other capital expenditures by an additional \$74.6 million (see note 17(h)).

(12) Rents and Other Receivables

Rents and other receivables comprise the following at October 31, 2009 and 2008:

| | 2009 | 2008 |
|--------------------------------------|---------------|-------------|
| Swap interest receivable | \$ 54,530 | 896,116 |
| Miscellaneous receivables | 2,091,912 | 1,942,847 |
| Interest receivable | 1,417,331 | 1,620,365 |
| Upfront payment due from lessee | 1,000,000 | — |
| Rents receivable | 12,311,348 | 9,362,258 |
| Total receivables | 16,875,121 | 13,821,586 |
| Less allowance for doubtful accounts | (68,141) | (80,980) |
| Net receivables | \$ 16,806,980 | 13,740,606 |

Rents receivable include accumulated amounts relating to the Goldman escrow deposit paid to the Authority in January 2010, approximately \$10.5 million through October 31, 2009 and \$8 million through October 31, 2008.

(13) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at October 31, 2009 and 2008 comprise the following:

| | 2009 | 2008 |
|--------------------------|---------------|-------------|
| Amounts due to vendors | \$ 2,819,431 | 3,557,429 |
| Contract retention costs | 3,055,171 | 2,961,194 |
| Due to developers | 27,500 | 27,500 |
| Payroll and benefits | 471,706 | 541,066 |
| Lease costs – Goldman | 4,931,978 | — |
| Total | \$ 11,305,786 | 7,087,189 |

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(14) Long-Term Liabilities

The Organization's bonds and other long-term liabilities as of October 31, 2009 and 2008 are comprised of the following obligations:

| | <u>October 31, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>October 31, 2009</u> | <u>Due within one year</u> |
|------------------------------------|-----------------------------|-------------------|-------------------|-----------------------------|--------------------------------|
| Authority Bonds outstanding: | | | | | |
| 2003 Revenue Bonds: | | | | | |
| Series 2003A | \$ 406,350,000 | — | 14,570,000 | 391,780,000 | 12,980,000 |
| Series 2003B | 235,000,000 | — | — | 235,000,000 | — |
| Series 2003C | <u>400,000,000</u> | <u>—</u> | <u>3,375,000</u> | <u>396,625,000</u> | <u>5,450,000</u> |
| Subtotal | 1,041,350,000 | — | 17,945,000 | 1,023,405,000 | 18,430,000 |
| Unamortized net premiums | <u>21,079,046</u> | <u>—</u> | <u>1,173,737</u> | <u>19,905,309</u> | <u>—</u> |
| Total bonds outstanding | <u>1,062,429,046</u> | <u>—</u> | <u>19,118,737</u> | <u>1,043,310,309</u> | <u>18,430,000</u> |
| Other long-term liabilities: | | | | | |
| Unamortized loss on extinguishment | (30,070,462) | — | (1,776,367) | (28,294,095) | — |
| Other postemployment benefits | 14,943,967 | 1,304,346 | 215,550 | 16,032,763 | — |
| Deferred revenue | 219,430,154 | 51,590,279 | 40,835,089 | 230,185,344 | 39,040,950 |
| Security and other deposits | <u>34,052,073</u> | <u>3,703,049</u> | <u>14,182,725</u> | <u>23,572,397</u> | <u>3,693,102</u> |
| Total other long-term liabilities | <u>238,355,732</u> | <u>56,597,674</u> | <u>53,456,997</u> | <u>241,496,409</u> | <u>42,734,052</u> |
| Total long-term liabilities | <u>\$ 1,300,784,778</u> | <u>56,597,674</u> | <u>72,575,734</u> | <u>1,284,806,718</u> | <u>61,164,052</u> |

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

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| | <u>October 31, 2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>October 31, 2008</u> | <u>Due within one year</u> |
|------------------------------------|-----------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Authority Bonds outstanding: | | | | | |
| 2003 Revenue Bonds: | | | | | |
| Series 2003A | \$ 406,350,000 | — | — | 406,350,000 | 14,570,000 |
| Series 2003B | 235,000,000 | — | — | 235,000,000 | — |
| Series 2003C | 400,000,000 | — | — | 400,000,000 | 3,375,000 |
| Subtotal | 1,041,350,000 | — | — | 1,041,350,000 | 17,945,000 |
| Unamortized net premiums | 22,252,784 | — | 1,173,738 | 21,079,046 | — |
| Total bonds outstanding | 1,063,602,784 | — | 1,173,738 | 1,062,429,046 | 17,945,000 |
| Other long-term liabilities: | | | | | |
| Unamortized loss on extinguishment | (31,846,828) | — | (1,776,366) | (30,070,462) | — |
| Other postemployment benefits | 13,852,211 | 1,304,346 | 212,590 | 14,943,967 | — |
| Deferred revenue | 129,328,529 | 127,313,048 | 37,211,423 | 219,430,154 | 35,047,311 |
| Security and other deposits | 25,518,163 | 8,533,910 | — | 34,052,073 | 17,609,573 |
| Total other long-term liabilities | 136,852,075 | 137,151,304 | 35,647,647 | 238,355,732 | 52,656,884 |
| Total long-term liabilities | \$ 1,200,454,859 | 137,151,304 | 36,821,385 | 1,300,784,778 | 70,601,884 |

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

(15) Retirement Plans

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 System, 110 State Street, Albany, NY 12236.

The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than 10 years of service and, therefore, contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which

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shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

| | | | | |
|------|-------|----|-----------|--|
| 2009 | | \$ | 397,400 | |
| 2008 | | | 454,632 | |
| 2007 | | | 392,719 | |
| | Total | | 1,244,751 | |

The Authority's contributions made to the ERS 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 were 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. No contributions were made by the Conservancy or their employees for the fiscal years ended October 31, 2009 and 2009.

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.cirsplans.org.

To be eligible under the CIRS Pension Plan, employees must be over the age of 21 and be employed for a minimum of one year at regular status. Benefits paid to retirees are based on age at retirement, years of credited service, and average compensation. The CIRS Pension Plan is a private pension plan governed by ERISA, and is characterized as a Multiemployer Plan by the U.S. Department of Labor. In the event of CIRS Pension Plan insolvency, the CIRS Pension Plan is covered under the Pension Benefit Guaranty Corporation. The total CIRS Pension Plan costs for eligible employees amounted to \$285,692 and \$265,902 for the fiscal years ended October 31, 2009 and 2008, respectively. The cost for retroactive

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service credit, \$1,289,969, was fully and directly funded by the Authority in June 2007 using funds held by the Authority on behalf of the Conservancy in the Operating Reserve Fund.

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 fiscal years ended October 31, 2009 and 2008 are \$220,726 and \$222,984, respectively.

(16) Postemployment Healthcare Plan

(a) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the State as a agent multiple employer defined benefit plan. Under the plan the Authority provides certain healthcare benefits for eligible retired employees and their dependents under a single employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns NYSHIP the authority 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 and 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 other New York State service 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 98 participants, including 62 current employees, 1 vestee, and 35 retired and/or spouses of retired employees were eligible to receive these benefits at October 31, 2009. 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 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.

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The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. Since the Authority used a one year amortization period, the ARC in future years represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and any interest on the unfunded actuarial accrued liability. The Authority's current year ARC is approximately \$1.3 million as detailed in the chart in the OPEB Status and Funding Progress Section of this footnote.

(b) *Funding*

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

(c) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the November 1, 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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(d) OPEB Status and Funding Progress

The Authority's OPEB obligation and the funded status of the plan as of October 31, 2009 and 2008 are as follows:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|-------------------|
| Actuarial Accrued Liability (AAL): | | |
| Net OPEB obligation beginning of year | \$ 14,943,967 | 13,852,211 |
| Annual required contribution (ARC): | | |
| Normal cost | 722,719 | 722,719 |
| Interest to year-end | 581,627 | 581,627 |
| Payments for retirees during year | <u>(215,550)</u> | <u>(212,590)</u> |
| Net OPEB obligation end of year | <u>\$ 16,032,763</u> | <u>14,943,967</u> |
| Actuarial Accrued Liability (AAL) November 1, 2008 and 2007 | \$ 14,943,967 | 13,852,211 |
| Funded OPEB plan assets | <u>—</u> | <u>—</u> |
| Unfunded Actuarial Accrued Liability (UAAL) November 1, 2008 and 2007 | <u>\$ 14,943,967</u> | <u>13,852,211</u> |
| Funded ratio (actuarial value of plan assets/AAL) | —% | —% |
| Covered payroll | \$ 5,001,187 | 5,001,187 |
| UAAL as percentage of covered payroll | 299% | 277% |

Corporate assets held at October 31, 2009 and 2008 in a separate corporate account for the exclusive purpose of paying OPEB obligations were approximately \$16.5 million and \$15.2 million, respectively. The OPEB assets are included on the balance sheets within the other corporate designated, escrowed fund and postemployment benefit financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(17) Commitments and Other Matters

- (a) The Authority has entered into construction and other related contracts having unexpended balances aggregating approximately \$23.3 million as of October 31, 2009.
- (b) The Authority rents office space in One World Financial Center, as well as community meeting space, field offices, and maintenance space in condominium buildings in Battery Park City. Total rent expense amounted to approximately \$2.1 million for the fiscal years ended October 31, 2009 and 2008.

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- (c) The terrorist attack on the World Trade Center on September 11, 2001 (9/11) destroyed the North Bridge and severely damaged the South Bridge owned by the Authority. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, the insurance monies were deposited, in May 2006, into an interest-bearing account (Insurance Fund), jointly controlled by the Authority and the Management Committee of the World Financial Center (BFP, American Express Company, and Merrill Lynch & Co.), for the purpose of (i) ensuring access into Battery Park City from the pedestrian concourse (Concourse), which the Port Authority of New York and New Jersey (PANYNJ) is constructing under West Street, connecting the World Trade Center site and the World Financial Center, and (ii) restoring the South Bridge. These funds are not recorded as assets of the Authority in the accompanying balance sheets. In March 2009, the Authority and the Management Committee entered into an agreement permitting the following withdrawals from the Insurance Fund: (i) up to \$1,747,000 to fund the cost of the foundation of a structure, proposed by Brookfield, which would shelter the Concourse escalator bank in front of, and provide access too, the Winter Garden and (ii) up to \$4,405,000 to fund the Authority's construction of an eastern extension of the South Bridge, as part of a project to renovate the Bridge. On December 16, 2009, Brookfield withdrew \$1,302,933 from the Insurance Fund, as reimbursement for amounts paid to PANYNJ for the total cost of the foundation. As of October 31, 2009, the Authority incurred \$464 thousand in costs relating to the South Bridge extension. Such costs are reimbursable from the Insurance Fund, but were not paid to the Authority as of October 31, 2009.
- (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 will be funded by the New York City Department of Education. Construction commenced in September 2008. 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 (the lease) based on the major terms described in the Term Sheet. The lease was executed in October 2008. Under the lease, the Authority is redeveloping the Pier with funding provided by the City, which would then be used for recreational, maritime and ancillary uses, including retail purposes.
- (f) On October 23, 2007, the members of the Authority approved a proposal by the Governor to pay up to \$40 million of Special Fund monies (see note 10) to the PANYNJ for the construction of a planned pedestrian concourse running under Route 9A. The concourse will connect the Winter Garden, (on the west at the edge of Battery Park City) and the World Trade Center site on the east. As of October 31, 2009, no disbursements were made by the Authority to the PANYNJ. A request for reimbursement was received immediately prior to the fiscal year end, \$13.4 million, and was paid by the Authority in December 2009. The expense was accrued at October 31, 2009.

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- (g) Pursuant to its ground lease with Goldman providing for construction by Goldman of a new world headquarters building in Battery Park City, the Authority entered into an arrangement as of July 18, 2007 under which Goldman may make purchases related to construction, furnishing and equipping the building without liability for New York State and City sales tax, for an aggregate sales tax exemption of up to \$60 million. To qualify for the exemption, the Authority is liable for payment of Goldman's purchases in connection with the building, in an amount not to exceed \$100 million (in addition to the value of goods delivered to the building), which purchases Goldman is to make as agent of the Authority, but which Goldman is obligated to pay pursuant to its ground lease. The Goldman Sachs Group, Inc (the corporate parent of Goldman) executed a guaranty to assure reimbursement of any amounts paid by the Authority as a consequence of this arrangement. The likelihood of any payments made directly by the Authority resulting from this arrangement is considered remote.
- (h) On December 22, 2009, the Authority issued \$87,235,000 of fixed rate Series 2009 Senior Revenue Bonds, including \$56,600,000 Series 2009A (Federally Taxable - Build America Bonds) and \$30,635,000 Series 2009B (Tax-Exempt Bonds). The proceeds of the Series 2009 Bonds, together with other funds held by the Authority, will be used for ongoing infrastructure and other capital improvements, to fund debt service reserves and to pay costs relating to the bond issuance.
- (i) Effective January 1, 2010, the Conservancy changed the health care insurance provider for their employees to NYSHIP. Effective February 1, 2010, employees of the Conservancy are eligible for postemployment health insurance benefits through NYSHIP.

(18) Battery Park City Parks Conservancy

The Conservancy was incorporated on December 2, 1987 as a New York not-for-profit corporation. The Authority, as sole member of the Conservancy, designated the Authority's members to serve as the Conservancy's board of directors. By modification of the bylaws, the Conservancy added the Authority's President as the Conservancy's President and the Authority's Chief Financial Officer as the Conservancy's Treasurer. 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 fiscal years ended October 31, 2009 and 2008, the Authority paid the Conservancy approximately \$8.3 million and \$7.6 million, respectively, for services, which are eliminated for financial reporting purposes. Approximately \$15 thousand and \$16 thousand is payable by the Authority to the Conservancy for the fiscal years ended October 31, 2009 and 2008, respectively, and are eliminated in the blending of the Conservancy's financial statements into the Authority's financial statements (see Other Supplementary Information – Combining Balance Sheet).

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(19) Litigation

- (a) Several claims have been asserted against the Authority arising out of design and construction work performed on the Authority's combined school/residential facility located on Site 22 in Battery Park City (the Site 22 Project). The general contractor, the plumbing contractor, and a subcontractor that performed work on the Site 22 Project have asserted a total of approximately \$12.1 million in claims. The school portion of the Site 22 Project was constructed by the Authority pursuant to an agreement with the City of New York, 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. Any amount the Authority may pay to settle claims relating to such school portion must be approved by the City.
- (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, and such claims hereinafter referred to as 9/11 Claims). Some of the Plaintiffs 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. The majority of the claims have been dismissed or discontinued with prejudice with respect to the Authority on account of the Plaintiffs' failure to file a notice of claim. However, State legislation was enacted on September 16, 2009 amending General Municipal Law §50-I to revive for one year certain claims related to the World Trade Center rescue, recovery, and clean-up effort that were barred for failure to timely file a notice of claim. The court has been notified of the new legislation, and the Authority anticipates that the cases that were previously dismissed will be restored shortly. Once restored, the Authority will have approximately 650 claims pending against it in Federal court. The Authority's ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, Brookfield, Merrill Lynch, and the lessee under the Gateway Plaza Sublease have agreed to assume the defense of the claims related to the premises that they control. The Authority is pursuing the tender of the remaining claims to its other ground lessees. Certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not provide coverage to the Authority for these claims.
- (c) Metrotech Contracting Corporation (Metrotech), a contractor of the Authority that has filed for bankruptcy, has asserted a number of claims against the Authority, totaling approximately \$693,000, relating to work allegedly performed and not paid for by the Authority. Approximately \$264,000 of this claim has been settled by Stipulation in Bankruptcy Court, leaving approximately \$492,000 in dispute.

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Other Supplementary Information – Combining Balance Sheet

October 31, 2009

| Assets | <u>Battery Park City Authority</u> | <u>Battery Park City Parks Conservancy</u> | <u>Eliminations</u> | <u>Total</u> |
|--|--|--|---------------------|----------------------|
| Current assets: | | | | |
| Bank deposits | \$ 13,341 | 584,144 | — | 597,485 |
| Investments | 4,083,852 | — | — | 4,083,852 |
| Restricted assets: | | | | |
| Rents and other receivables (net of allowance for doubtful accounts of \$68,141) | 16,800,758 | 21,376 | (15,154) | 16,806,980 |
| 2003 Revenue Bond Resolution Funds | 148,234,383 | — | — | 148,234,383 |
| Corporate-designated and escrowed funds | 43,676,090 | — | — | 43,676,090 |
| Total current assets | <u>212,808,424</u> | <u>605,520</u> | <u>(15,154)</u> | <u>213,398,790</u> |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| 2003 Revenue Bond Resolution Funds | 138,384,813 | — | — | 138,384,813 |
| Corporate-designated funds | 224,730,965 | — | — | 224,730,965 |
| Residential lease required funds | 18,992,184 | — | — | 18,992,184 |
| | 57,947,296 | — | — | 57,947,296 |
| Deferred costs: | | | | |
| Bond issuance costs, less accumulated amortization of \$14,294,274 | 36,468,774 | — | — | 36,468,774 |
| Costs of leases, less accumulated amortization of \$881,450 | 3,798,078 | — | — | 3,798,078 |
| Battery Park City project assets – at cost, less accumulated depreciation | 461,548,193 | — | — | 461,548,193 |
| Other assets | 5,748,336 | 276,272 | — | 6,024,608 |
| Total noncurrent assets | <u>947,618,639</u> | <u>276,272</u> | <u>—</u> | <u>947,894,911</u> |
| Total assets | <u>\$ 1,160,427,063</u> | <u>881,792</u> | <u>(15,154)</u> | <u>1,161,293,701</u> |

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October 31, 2009

| Liabilities and Net Deficit | Battery Park City Authority | Battery Park City Parks Conservancy | Eliminations | Total |
|--|-----------------------------------|---|--------------|---------------|
| Current liabilities: | | | | |
| Accrued interest on bonds | \$ 16,732,457 | — | — | 16,732,457 |
| Accounts payable and other liabilities | 10,730,093 | 590,847 | (15,154) | 11,305,786 |
| Due to the City of New York | 90,537,000 | — | — | 90,537,000 |
| Due to the PANYNJ | 13,438,007 | — | — | 13,438,007 |
| Deferred revenue: | | | | |
| PILOT | 25,367,590 | — | — | 25,367,590 |
| Base rent and other | 13,673,360 | — | — | 13,673,360 |
| Security and other deposits | 3,693,102 | — | — | 3,693,102 |
| 2003 Revenue Bonds | 18,430,000 | — | — | 18,430,000 |
| Total current liabilities | 192,601,609 | 590,847 | (15,154) | 193,177,302 |
| Noncurrent liabilities: | | | | |
| Deferred revenue: | | | | |
| Base rent and other | 191,144,394 | — | — | 191,144,394 |
| Security and other deposits | 19,879,295 | — | — | 19,879,295 |
| OPEB | 16,032,763 | — | — | 16,032,763 |
| Bonds outstanding: | | | | |
| 2003 Revenue Bonds, less accumulated amortization of \$7,090,663 | 1,024,880,309 | — | — | 1,024,880,309 |
| Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds | (28,294,095) | — | — | (28,294,095) |
| Total noncurrent liabilities | 1,223,642,666 | — | — | 1,223,642,666 |
| Total liabilities | 1,416,244,275 | 590,847 | (15,154) | 1,416,819,968 |
| Net assets (deficit): | | | | |
| Invested in capital assets, net of related debt | 9,354,597 | — | — | 9,354,597 |
| Restricted: | | | | |
| Debt service | 60,019,940 | — | — | 60,019,940 |
| Under bond resolutions and other agreements | 318,915,703 | — | — | 318,915,703 |
| Unrestricted assets (deficit) | (644,107,452) | 290,945 | — | (643,816,507) |
| Total net assets (deficit) | (255,817,212) | 290,945 | — | (255,526,267) |
| Total liabilities and net assets (deficit) | \$ 1,160,427,063 | 881,792 | (15,154) | 1,161,293,701 |

See accompanying independent auditors' report.

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October 31, 2008

| Assets | Battery Park City Authority | Battery Park City Parks Conservancy | Eliminations | Total |
|--|--|--|---------------------|----------------------|
| Current assets: | | | | |
| Bank deposits | \$ 13,843 | 284,496 | — | 298,339 |
| Investments | 7,133,857 | — | — | 7,133,857 |
| Restricted assets: | | | | |
| Rents and other receivables (net of allowance for doubtful accounts of \$80,980) | 13,720,069 | 36,563 | (16,026) | 13,740,606 |
| 2003 Revenue Bond Resolution Funds | 161,190,959 | — | — | 161,190,959 |
| Corporate-designated and escrowed funds | 57,609,573 | — | — | 57,609,573 |
| Total current assets | <u>239,668,301</u> | <u>321,059</u> | <u>(16,026)</u> | <u>239,973,334</u> |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| 2003 Revenue Bond Resolution Funds | 179,196,550 | — | — | 179,196,550 |
| Corporate-designated funds | 123,575,663 | — | — | 123,575,663 |
| Residential lease required funds | 15,589,335 | — | — | 15,589,335 |
| Corporate-designated, escrowed and OPEB funds | 60,110,095 | — | — | 60,110,095 |
| Deferred costs: | | | | |
| Bond issuance costs, less accumulated amortization of \$12,855,800 | 37,907,248 | — | — | 37,907,248 |
| Costs of leases, less accumulated amortization of \$817,307 | 3,862,220 | — | — | 3,862,220 |
| Battery Park City project assets – at cost, less accumulated depreciation | 449,568,884 | — | — | 449,568,884 |
| Other assets | 6,149,889 | 249,774 | — | 6,399,663 |
| Total noncurrent assets | <u>875,959,884</u> | <u>249,774</u> | <u>—</u> | <u>876,209,658</u> |
| Total assets | <u>\$ 1,115,628,185</u> | <u>570,833</u> | <u>(16,026)</u> | <u>1,116,182,992</u> |

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| Liabilities and Net Deficit | Battery Park City Authority | Battery Park City Parks Conservancy | Eliminations | Total |
|--|-----------------------------------|---|--------------|---------------|
| Current liabilities: | | | | |
| Accrued interest on bonds | \$ 18,301,915 | — | — | 18,301,915 |
| Accounts payable and other liabilities | 6,718,759 | 384,456 | (16,026) | 7,087,189 |
| Due to the City of New York | 92,736,000 | — | — | 92,736,000 |
| Deferred revenue: | | | | |
| PILOT | 22,422,288 | — | — | 22,422,288 |
| Base rent and other | 12,625,023 | — | — | 12,625,023 |
| Security and other deposits | 17,609,573 | — | — | 17,609,573 |
| 2003 Revenue Bonds | 17,945,000 | — | — | 17,945,000 |
| Total current liabilities | 188,358,558 | 384,456 | (16,026) | 188,726,988 |
| Noncurrent liabilities: | | | | |
| Deferred revenue: | | | | |
| Base rent and other | 184,382,843 | — | — | 184,382,843 |
| Security and other deposits | 16,442,500 | — | — | 16,442,500 |
| OPEB | 14,943,967 | — | — | 14,943,967 |
| Bonds outstanding: | | | | |
| 2003 Revenue Bonds, less accumulated amortization of \$5,916,925 | 1,044,484,046 | — | — | 1,044,484,046 |
| Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds | (30,070,462) | — | — | (30,070,462) |
| Total noncurrent liabilities | 1,230,182,894 | — | — | 1,230,182,894 |
| Total liabilities | 1,418,541,452 | 384,456 | (16,026) | 1,418,909,882 |
| Net assets (deficit): | | | | |
| Invested in capital assets, net of related debt | (280,135) | — | — | (280,135) |
| Restricted: | | | | |
| Debt service | 52,010,906 | — | — | 52,010,906 |
| Under bond resolutions and other agreements | 284,513,119 | — | — | 284,513,119 |
| Unrestricted assets (deficit) | (639,147,157) | 186,377 | — | (638,960,780) |
| Total net assets (deficit) | (302,903,267) | 186,377 | — | (302,716,890) |
| Total liabilities and net assets (deficit) | \$ 1,115,638,185 | 570,833 | (16,026) | 1,116,192,992 |

See accompanying independent auditors' 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)

Year ended October 31, 2009

| | Battery Park City Authority | Battery Park City Parks Conservancy | Eliminations | Total |
|--|--|--|---------------------|----------------------|
| Operating revenues: | | | | |
| Revenues from ground leases: | | | | |
| Base rent | \$ 58,732,238 | — | — | 58,732,238 |
| Supplemental rent | 772,225 | — | — | 772,225 |
| Payments in lieu of real estate taxes | 146,254,564 | — | — | 146,254,564 |
| Civic facilities payments and other | <u>17,830,567</u> | <u>9,409,725</u> | <u>(9,019,928)</u> | <u>18,220,364</u> |
| Total operating revenues | <u>223,589,594</u> | <u>9,409,725</u> | <u>(9,019,928)</u> | <u>223,979,391</u> |
| Operating expenses: | | | | |
| Wages and related benefits | 7,014,669 | 6,977,423 | — | 13,992,092 |
| OPEB | 1,304,346 | — | — | 1,304,346 |
| Other operating and administrative | 31,236,122 | 2,395,595 | (9,191,197) | 24,440,520 |
| Depreciation of project assets | 6,042,249 | — | — | 6,042,249 |
| Other depreciation and amortization | <u>2,818,483</u> | <u>104,596</u> | <u>—</u> | <u>2,923,079</u> |
| Total operating expenses | <u>48,415,869</u> | <u>9,477,614</u> | <u>(9,191,197)</u> | <u>48,702,286</u> |
| Operating income (deficit) | <u>175,173,725</u> | <u>(67,889)</u> | <u>171,269</u> | <u>175,277,105</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest income on funds relating to: | | | | |
| 2003 Revenue Bonds | 3,441,684 | — | — | 3,441,684 |
| Corporate-designated, escrowed and OPEB funds | 3,938,408 | — | — | 3,938,408 |
| Realized and unrealized gains and losses | 9,410,025 | — | — | 9,410,025 |
| Other revenue | 580,217 | 172,457 | (171,269) | 581,405 |
| Interest expense relating to: | | | | |
| 2003 Swap agreements – net expense | (11,914,862) | — | — | (11,914,862) |
| 2003 Revenue Bonds | (27,781,769) | — | — | (27,781,769) |
| Loss from extinguishment | (1,776,366) | — | — | (1,776,366) |
| Provision for transfer to the PANYNJ | (13,438,007) | — | — | (13,438,007) |
| Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts | <u>(90,537,000)</u> | <u>—</u> | <u>—</u> | <u>(90,537,000)</u> |
| Total nonoperating expenses | <u>(128,077,670)</u> | <u>172,457</u> | <u>(171,269)</u> | <u>(128,076,482)</u> |
| Change in net assets | 47,096,055 | 104,568 | — | 47,200,623 |
| Net assets (deficit), beginning of year | <u>(302,913,267)</u> | <u>186,377</u> | <u>—</u> | <u>(302,726,890)</u> |
| Net assets (deficit), end of year | \$ <u>(255,817,212)</u> | <u>290,945</u> | <u>—</u> | <u>(255,526,267)</u> |

See accompanying independent auditors' 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)

Year ended October 31, 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 | \$ 57,374,979 | — | — | 57,374,979 |
| Supplemental rent | 715,188 | — | — | 715,188 |
| Payments in lieu of real estate taxes | 131,884,420 | — | — | 131,884,420 |
| Civic facilities payments and other | <u>21,142,956</u> | <u>9,026,186</u> | <u>(8,568,528)</u> | <u>21,600,614</u> |
| Total operating revenues | <u>211,117,543</u> | <u>9,026,186</u> | <u>(8,568,528)</u> | <u>211,575,201</u> |
| Operating expenses: | | | | |
| Wages and related benefits | 6,819,135 | 6,406,126 | — | 13,225,261 |
| OPEB | 1,304,346 | — | — | 1,304,346 |
| Other operating and administrative | 22,444,716 | 2,515,064 | (8,626,746) | 16,333,034 |
| Depreciation of project assets | 5,463,430 | — | — | 5,463,430 |
| Other depreciation and amortization | <u>2,944,761</u> | <u>86,173</u> | <u>—</u> | <u>3,030,934</u> |
| Total operating expenses | <u>38,976,388</u> | <u>9,007,363</u> | <u>(8,626,746)</u> | <u>39,357,005</u> |
| Operating income | <u>172,141,155</u> | <u>18,823</u> | <u>58,218</u> | <u>172,218,196</u> |
| Nonoperating revenues (expenses): | | | | |
| Interest income on funds relating to: | | | | |
| 2003 Revenue Bonds | 4,535,858 | — | — | 4,535,858 |
| Corporate-designated, escrowed and OPEB funds | 4,493,680 | — | — | 4,493,680 |
| Realized and unrealized gains and losses | 12,225,357 | — | — | 12,225,357 |
| Other revenue (expenses) | 5,688,642 | (240,067) | (58,218) | 5,390,357 |
| Interest expense relating to: | | | | |
| 2003 Swap agreements – net expense | (4,972,036) | — | — | (4,972,036) |
| 2003 Revenue Bonds | (49,643,827) | — | — | (49,643,827) |
| Loss from extinguishment | (1,776,366) | — | — | (1,776,366) |
| Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts | <u>(92,736,000)</u> | <u>—</u> | <u>—</u> | <u>(92,736,000)</u> |
| Total nonoperating expenses | <u>(122,184,692)</u> | <u>(240,067)</u> | <u>(58,218)</u> | <u>(122,482,977)</u> |
| Change in net assets | 49,956,463 | (221,244) | — | 49,735,219 |
| Net assets (deficit), beginning of year | <u>(352,869,730)</u> | <u>407,621</u> | <u>—</u> | <u>(352,462,109)</u> |
| Net assets (deficit), end of year | \$ <u><u>(302,913,267)</u></u> | <u><u>186,377</u></u> | <u><u>—</u></u> | <u><u>(302,726,890)</u></u> |

See accompanying independent auditors' 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

Year ended October 31, 2009

| | <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 | \$ 228,998,018 | — | — | 228,998,018 |
| Receipts from the Authority | — | 8,143,855 | (8,143,855) | — |
| Miscellaneous receipts | 949,997 | 407,987 | — | 1,357,984 |
| Total cash receipts from operating activities | <u>229,948,015</u> | <u>8,551,842</u> | <u>(8,143,855)</u> | <u>230,356,002</u> |
| Cash payments for: | | | | |
| Salaries and benefits | (7,327,174) | (6,891,096) | — | (14,218,270) |
| Services and supplies | (25,953,567) | (1,362,286) | 8,315,124 | (19,000,729) |
| Total cash payments from operating activities | <u>(33,280,741)</u> | <u>(8,253,382)</u> | <u>8,315,124</u> | <u>(33,218,999)</u> |
| Net cash provided by operating activities | <u>196,667,274</u> | <u>298,460</u> | <u>171,269</u> | <u>197,137,003</u> |
| Cash flows from noncapital financing activities: | | | | |
| Payments for Battery Park City Library | (23,064) | — | — | (23,064) |
| Receipts from lessees- site security deposits | 3,226,341 | — | — | 3,226,341 |
| Receipt from NYC for Pier A | 3,175,535 | — | — | 3,175,535 |
| Payments to Contractors for Pier A | (2,738,417) | — | — | (2,738,417) |
| Payments to New York City | (106,834,602) | — | — | (106,834,602) |
| Net cash used in noncapital financing activities | <u>(103,194,207)</u> | <u>—</u> | <u>—</u> | <u>(103,194,207)</u> |
| Cash flows from capital and related financing activities: | | | | |
| Development costs – site improvements and construction | (18,958,720) | — | — | (18,958,720) |
| Capital asset expenditures | (815,471) | (171,269) | — | (986,740) |
| Receipts for development/capital asset expenditures | 116,239 | 172,457 | (171,269) | 117,427 |
| Payments for bond issuance costs | (511,529) | — | — | (511,529) |
| Auction fees for variable debt | (1,440,218) | — | — | (1,440,218) |
| Payments made on the 2003 Swap Agreement | (13,739,693) | — | — | (13,739,693) |
| Payments received on the 2003 Swap Agreement | 2,618,219 | — | — | 2,618,219 |
| Principal payments on 2003 Revenue Bonds | (17,945,000) | — | — | (17,945,000) |
| Interest paid on 2003 Senior Revenue Bonds | (19,702,814) | — | — | (19,702,814) |
| Interest paid on 2003 Junior Revenue Bonds | (9,313,857) | — | — | (9,313,857) |
| Net cash (used in) provided by capital and related financing activities | <u>(79,692,844)</u> | <u>1,188</u> | <u>(171,269)</u> | <u>(79,862,925)</u> |
| Cash flows from investing activities: | | | | |
| Interest and realized gains received on investment securities | 14,086,452 | — | — | 14,086,452 |
| Fair value adjustment short-term investments | (50,454) | — | — | (50,454) |
| Redemptions and sales of investment securities | 780,413,166 | — | — | 780,413,166 |
| Purchases of investment securities | (796,988,164) | — | — | (796,988,164) |
| Net cash used in investing activities | <u>(2,539,000)</u> | <u>—</u> | <u>—</u> | <u>(2,539,000)</u> |
| Increase in cash and cash equivalents | 11,241,223 | 299,648 | — | 11,540,871 |
| Cash and cash equivalents, beginning of year | <u>329,840,040</u> | <u>284,496</u> | <u>—</u> | <u>330,124,536</u> |
| Cash and cash equivalents, end of year | <u>\$ 341,081,263</u> | <u>584,144</u> | <u>—</u> | <u>341,665,407</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

Year ended October 31, 2009

| | <u>Battery Park City Authority</u> | <u>Battery Park City Parks Conservancy</u> | <u>Eliminations</u> | <u>Total</u> |
|--|--|--|---------------------|--------------------|
| Reconciliation of operating income (deficit) to net cash provided by operating activities: | | | | |
| Operating income (deficit) | \$ 175,173,725 | (67,889) | 171,269 | 175,277,105 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 8,860,732 | 104,596 | — | 8,965,328 |
| Bad debt expense | (12,725) | — | — | (12,725) |
| Other | (116,879) | — | — | (116,879) |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in rents and other receivables | (3,599,882) | 15,187 | (872) | (3,585,567) |
| Decrease in other assets | 28,303 | 40,175 | — | 68,478 |
| Increase in accounts payable and other liabilities | 4,551,073 | 206,391 | 872 | 4,758,336 |
| Decrease in security and other deposits | (61,059) | — | — | (61,059) |
| Increase in OPEB | 1,088,796 | — | — | 1,088,796 |
| Increase in deferred revenue | 10,755,190 | — | — | 10,755,190 |
| Net cash provided by operating activities | <u>\$ 196,667,274</u> | <u>298,460</u> | <u>171,269</u> | <u>197,137,003</u> |
| Reconciliation to cash and cash equivalents, end of year: | | | | |
| Bank deposits | \$ 13,341 | 584,144 | — | 597,485 |
| Cash and cash equivalents | (771,526) | — | — | (771,526) |
| Investments with less than 91-day maturities at purchase | 341,839,448 | — | — | 341,839,448 |
| Cash and cash equivalents, end of year | <u>\$ 341,081,263</u> | <u>584,144</u> | <u>—</u> | <u>341,665,407</u> |

See accompanying independent auditors' 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

Year ended October 31, 2008

| | Battery Park City Authority | Battery Park City Parks Conservancy | Eliminations | Total |
|---|--|--|---------------------|---------------------|
| Cash flows from operating activities: | | | | |
| Cash receipts from: | | | | |
| Tenant payments | \$ 275,776,961 | — | — | 275,776,961 |
| Receipts from the Authority | — | 7,581,910 | (7,581,910) | — |
| Miscellaneous receipts | 944,273 | 442,053 | — | 1,386,326 |
| Total cash receipts from operating activities | <u>276,721,234</u> | <u>8,023,963</u> | <u>(7,581,910)</u> | <u>277,163,287</u> |
| Cash payments for: | | | | |
| Salaries and benefits | (7,089,974) | (6,307,580) | — | (13,397,554) |
| Services and supplies | (23,361,247) | (1,622,203) | 7,640,128 | (17,343,322) |
| Total cash payments from operating activities | <u>(30,451,221)</u> | <u>(7,929,783)</u> | <u>7,640,128</u> | <u>(30,740,876)</u> |
| Net cash provided by operating activities | <u>246,270,013</u> | <u>94,180</u> | <u>58,218</u> | <u>246,422,411</u> |
| Cash flows from noncapital financing activities: | | | | |
| Payments for Battery Park City Library | (101,101) | — | — | (101,101) |
| Receipts from lessees – site security deposits | 7,592,601 | — | — | 7,592,601 |
| Payment to Irish Hunger Memorial Foundation | — | (298,285) | — | (298,285) |
| Receipts from NYC School Construction Authority | 1,640,829 | — | — | 1,640,829 |
| Payments to NYC School Construction Authority | (2,858,060) | — | — | (2,858,060) |
| Payment to New York City | (83,100,000) | — | — | (83,100,000) |
| Net cash used in noncapital financing activities | <u>(76,825,731)</u> | <u>(298,285)</u> | <u>—</u> | <u>(77,124,016)</u> |
| Cash flows from capital and related financing activities: | | | | |
| Development costs – site improvements and construction | (28,549,820) | — | — | (28,549,820) |
| Capital asset expenditures | (769,202) | (58,218) | — | (827,420) |
| Receipts for development/capital asset expenditures | — | 58,218 | (58,218) | — |
| Auction fees for variable debt | (1,634,791) | — | — | (1,634,791) |
| Payments made on the 2003 Swap Agreement | (13,808,000) | — | — | (13,808,000) |
| Payments received on the 2003 Swap Agreement | 9,086,301 | — | — | 9,086,301 |
| Interest paid on 2003 Senior Revenue Bonds | (19,855,799) | — | — | (19,855,799) |
| Interest paid on 2003 Junior Revenue Bonds | (28,806,818) | — | — | (28,806,818) |
| Net cash used in capital and related financing activities | <u>(84,338,129)</u> | <u>—</u> | <u>(58,218)</u> | <u>(84,396,347)</u> |
| Cash flows from investing activities: | | | | |
| Interest and realized gains received on investment securities | 21,018,744 | — | — | 21,018,744 |
| Fair value adjustment short-term investments | (209,308) | — | — | (209,308) |
| Redemptions and sales of investment securities | 668,174,764 | 275,362 | — | 668,450,126 |
| Purchases of investment securities | (693,534,021) | — | — | (693,534,021) |
| Net cash (used in) provided by investing activities | <u>(4,549,821)</u> | <u>275,362</u> | <u>—</u> | <u>(4,274,459)</u> |
| Increase in cash and cash equivalents | 80,556,332 | 71,257 | — | 80,627,589 |
| Cash and cash equivalents, beginning of year | <u>249,283,708</u> | <u>213,239</u> | <u>—</u> | <u>249,496,947</u> |
| Cash and cash equivalents, end of year | <u>\$ 329,840,040</u> | <u>284,496</u> | <u>—</u> | <u>330,124,536</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

Year ended October 31, 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 operating activities: | | | | |
| Operating income | \$ 172,141,155 | 18,823 | 58,218 | 172,218,196 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 8,408,191 | 86,173 | — | 8,494,364 |
| Bad debt expense | (87,244) | — | — | (87,244) |
| Other | (1,303,364) | | | (1,303,364) |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in rents and other receivables | 228,296 | (6,809) | (5,922) | 215,565 |
| Decrease in other assets | 8,762 | 1,455 | — | 10,217 |
| Increase (decrease) in accounts payable and other liabilities | 410,879 | (5,462) | 5,922 | 411,339 |
| Increase in OPEB | 1,091,756 | — | — | 1,091,756 |
| Increase in deferred revenue | 65,371,582 | — | — | 65,371,582 |
| Net cash provided by operating activities | <u>\$ 246,270,013</u> | <u>94,180</u> | <u>58,218</u> | <u>246,422,411</u> |
| Reconciliation to cash and cash equivalents, end of year: | | | | |
| Bank deposits | \$ 13,843 | 284,496 | — | 298,339 |
| Cash and cash equivalents | 15,660,627 | — | — | 15,660,627 |
| Investments with less than 91-day maturities at purchase | 314,165,570 | — | — | 314,165,570 |
| Cash and cash equivalents, end of year | <u>\$ 329,840,040</u> | <u>284,496</u> | <u>—</u> | <u>330,124,536</u> |

See accompanying independent auditors' report.