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HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Basic Financial Statements

October 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

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KPMG LLP
515 Broadway
Albany, NY 12207

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, 2008 and 2007, 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, 2008 and 2007, 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, 2009 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 opinions on the financial statements that collectively comprise 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, based on our audits and the reports of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

January 29, 2009

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 Conversancy (the Conservancy), a blended component unit of the Authority, collectively referred to as "the Organization" for the fiscal years ended October 31, 2008, 2007 and 2006. 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 2008 to 2007 and 2007 to 2006

Financial Highlights – 2008

- On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments in November 2007 totaling approximately $60 million, including an upfront lease payment of $56.5 million. Approximately $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 (see note 16).

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

- The 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 at October 31, 2008.

- A $92.7 million liability was recorded for the fiscal year ended October 31, 2008 representing the transfer of fiscal 2008 excess revenues to the City of New York (the City) (see note 11). 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, 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 (see note 11). 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).
- 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. Effective for the fiscal year ended October 31, 2007, financial activity for the Conservancy is combined with the Authority's basic financial statements. Such activity is reflected in the accompanying financial statements for the fiscal years ended October 31, 2008 and 2007 (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, 2008 due to insufficient investor orders to support the product resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (LIBOR) based on the prevailing rating for the bond series. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid February 2008 through 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 (see note 10).

Financial Highlights – 2007

- On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City became effective. Under the leases, the tenants made pre-lease and lease payments totaling approximately $60 million, including an upfront lease payment of $56.5 million. Approximately $1.3 million of base rent, $787 thousand of PILOT, and $899 thousand in interest on amounts due were recorded as revenues during the fiscal year ended October 31, 2007.
- Effective for the fiscal year beginning November 1, 2006, the Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and financial statement presentation of other postemployment benefits (OPEB), including plan expenditures and related liabilities (assets), and note disclosures. At October 31, 2007 in accordance with GASB Statement No. 45, the Authority's accrued liability representing postretirement medical benefits for all eligible current and retired employees is $13.9 million. Additionally, the Authority's Board of Directors designated $14.2 million from existing corporate reserves for the exclusive purpose of paying future OPEB obligations.
- The fiscal year ended October 31, 2007 yielded a total of $206.5 million in operating revenues, representing an increase of approximately $14.1 million or 7.3% over the prior fiscal year. Total operating expenses increased $15.7 million from $37.9 million at October 31, 2006 to $53.6 million at October 31, 2007.

- An $83.1 million liability was recorded for the fiscal year ended October 31, 2007 representing the transfer of fiscal 2007 excess revenues to the City.
- At October 31, 2007, the Authority retained approximately $113.4 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide. Approximately $36.7 million was transferred to the New York City Housing Trust Fund in February 2007, satisfying the Authority's $130 million commitment (see note 17(f)). In addition, at October 31, 2007, the Authority held approximately $39.2 million in the Project Costs Fund to be used for certain park, street, and other infrastructure improvements and other capital expenditures.

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, 2008, 2007 and 2006 is as follows:

	October 31			2008 vs 2007 Increase (decrease)	2007 vs 2006 Increase (decrease)
	2008	2007	2006		
Assets:					
Bank deposits, investments, and rents and other receivables	$ 21,172,802	18,595,807	8,314,257	2,576,995	10,281,550
Bond resolution restricted assets (current and noncurrent)	340,387,509	294,712,467	377,479,417	45,675,042	(82,766,950)
Battery Park City project assets, net	449,568,884	394,607,108	385,016,482	54,961,776	9,590,626
Other current and noncurrent assets	305,053,797	246,775,935	181,969,337	58,277,862	64,806,598
Total assets	$ 1,116,182,992	954,691,317	952,779,493	161,491,675	1,911,824
Liabilities:					
Current liabilities	$ 188,726,988	153,463,943	217,446,129	35,263,045	(63,982,186)
Long-term liabilities	1,230,182,894	1,153,689,483	1,140,546,643	76,493,411	13,142,840
Total liabilities	1,418,909,882	1,307,153,426	1,357,992,772	111,756,456	(50,839,346)
Net assets (deficit):					
Invested in capital assets, net of related debt	(280,135)	248,751	5,028,460	(528,886)	(4,779,709)
Restricted	397,655,270	283,000,945	205,561,263	114,654,325	77,439,682
Unrestricted	(700,102,025)	(635,711,805)	(615,803,002)	(64,390,220)	(19,908,803)
Total net deficit	(302,726,890)	(352,462,109)	(405,213,279)	49,735,219	52,751,170
Total liabilities and net deficit	$ 1,116,182,992	954,691,317	952,779,493	161,491,675	1,911,824

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 (see note 12). 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. 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.

2007 vs 2006

At October 31, 2007, the Authority maintained total assets of approximately $954.7 million, approximately $1.9 million greater than total assets at October 31, 2006.

Bank deposits, investments, and rents and other receivables increased approximately $10.3 million to $18.6 million at October 31, 2007 and is primarily due to the collection of approximately $3.5 million of transaction and administrative payments received on the sale of residential units in Site 2A and held in unrestricted funds at October 31, 2007. All assets accumulated in the unrestricted fund during fiscal 2006 were deposited into the 2003 Revenue Bond Resolution funds before October 31, 2006. Additionally, rent receivables increased approximately $5.9 million and is primarily attributable to base, PILOT, and other rents recognized in accordance with the Sites 23 and 24 leases.

The 2003 Revenue Bond Resolution assets, approximately $294.7 million at October 31, 2007 decreased $82.8 million from $377.5 million at October 31, 2006 (see note 8). At October 31, 2007 funds held under the 2003 Revenue Bond Resolutions for the designated purposes of paying debt service were approximately $14.3 million higher than October 31, 2006 primarily due to increased funding requirements. Other 2003 Revenue Bond Resolution reserves designated for the purposes of funding operations and debt service reserves increased $5.1 million compared to October 31, 2006. An additional $6.4 million was held as excess revenues at October 31, 2007 in the Residual Fund for the benefit of the City. In addition, funds held in the Pledged Revenue Fund (PRF) at October 31, 2007 were approximately $95.8 million less than funds held at October 31, 2006. The decrease is primarily attributable to transfers of approximately $310 million to other bond resolution funds for the purposes of funding debt service based on the resolution requirements, supporting operating expenses, transferring funds to the City, and retaining funds in the Joint Purpose Fund. These transfers were offset by deposits of approximately $214.7 million relating to ground lease payments, Swap receipts from the three counterparties, and interest earnings. Lastly, assets held under the bond resolution for project infrastructure and certain other asset costs were approximately $12.6 million lower as compared to October 31, 2006 due to investments in infrastructure and other assets.

Project Assets

At October 31, 2008, the Authority's investment in project assets, net of accumulated depreciation was approximately $449.6 million, an increase of $55 million over October 31, 2007.

The Battery Park City project (Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction by private developers of approximately 9.3 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units and approximately 8,900 residential units. Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space representing the Goldman Sachs headquarters located on Site 26, 1,321 residential units, and a public school on Site 2B. Construction is underway for a 462-unit residential condo on Site 3, a 268-unit residential condo on Sites 16/17, 2 residential buildings on Site 23 and 24 comprising 591 units, the Goldman Sachs headquarters and the public school.

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, 23 and 24 and related infrastructure improvements are included in project assets. The balances at October 31, 2008, 2007 and 2006 are as follows:

	October 31			2008 vs	2007 vs
	2008	**2007**	**2006**	**2007**	**2006**
Land	$ 83,015,653	83,015,653	83,015,653	—	—
Site improvements	350,918,498	334,671,507	320,540,142	16,246,991	14,131,365
Residential building and condominium units	87,006,292	43,268,009	43,080,997	43,738,283	187,012
	520,940,443	460,955,169	446,636,792	59,985,274	14,318,377
Less accumulated depreciation	(71,371,559)	(66,348,061)	(61,620,310)	(5,023,498)	(4,727,751)
Total Battery Park City project assets	$ 449,568,884	394,607,108	385,016,482	54,961,776	9,590,626

For the fiscal year ended October 31, 2008, the increase in Site Improvements of approximately $16 million, relates to improvements to the Esplanade, park improvements in the north and south neighborhoods and 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 $3.2 million in infrastructure assets primarily related to the transfer of a portion of the north neighborhood streets to the City (see note 3(c)).

The $43.7 million increase in residential building and condominium units during 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.

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

Other Current and Noncurrent Assets

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

	October 31			2008 vs	2007 vs
	2008	2007	2006	2007	2006
Residential lease required funds	$ 15,589,335	7,620,015	7,231,822	7,969,320	388,193
Corporate-designated, escrowed and OPEB funds	241,295,331	190,181,449	123,663,543	51,113,882	66,517,906
Deferred costs:					
Bond issuance costs, net	37,907,248	39,345,722	40,784,197	(1,438,474)	(1,438,475)
Costs of leases, net	3,862,220	2,569,715	2,611,841	1,292,505	(42,126)
Total deferred costs, net	41,769,468	41,915,437	43,396,038	(145,969)	(1,480,601)
Other assets	6,399,663	7,059,034	7,677,934	(659,371)	(618,900)
Total other current and noncurrent assets	$ 305,053,797	246,775,935	181,969,337	58,277,862	64,806,598

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 Joint Purpose Fund (see note 11), 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.

2007 vs 2006

Other current and noncurrent assets increased approximately $64.8 million from $182 million at October 31, 2006 to $246.8 million at October 31, 2007.

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

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

Additionally, $4.8 million was transferred from the corporate designated funds, including approximately $3.5 million to the 2003 Revenue Bond Funds (Residual Fund) held for the benefit of the City, approximately $1.3 million from Authority reserves held on behalf of the Conservancy (see note 15) for the payment of retroactive pension plan benefits for Conservancy employees, and $222 thousand for the construction of a public library. Additionally, deposits to the Conservancy's operating reserve and interest earnings on all funds held increased the balance. Approximately $14.2 million in corporate reserves were transferred to establish a new OPEB asset account for the exclusive purpose of paying postemployment medical benefits, resulting in no change in the total corporate designated funds.

Amortization of deferred costs decreased bond issuance costs by approximately $1.4 million. Additionally, amortization of legal costs incurred resulted in a decrease to cost of leases of approximately $42 thousand. Other assets decreased by $619 thousand primarily due a reduction of the gross asset values due to annual depreciation offset by minor fixed asset purchases.

Liabilities

Total liabilities at October 31, 2008, 2007 and 2006 are as follows:

	October 31			2008 vs	2007 vs
	2008	2007	2006	2007	2006
Current liabilities:					
Accrued interest on bonds	$ 18,301,915	17,822,091	17,722,584	479,824	99,507
Accounts payable and other liabilities	7,087,189	5,776,476	7,871,657	1,310,713	(2,095,181)
Due to the City of New York	92,736,000	83,100,000	111,395,000	9,636,000	(28,295,000)
Due to the NYC Housing Trust Fund	—	—	36,651,610	—	(36,651,610)
Deferred revenue	35,047,311	29,672,501	27,368,442	5,374,810	2,304,059
Security and other deposits	17,609,573	17,092,875	16,436,836	516,698	656,039
2003 Revenue Bonds	17,945,000	—	—	17,945,000	—
Total current liabilities	188,726,988	153,463,943	217,446,129	35,263,045	(63,982,186)
Noncurrent liabilities:					
Deferred revenue	184,382,843	99,656,028	101,356,221	84,726,815	(1,700,193)
Security and other deposits	16,442,500	8,425,288	8,037,095	8,017,212	388,193
Other Post Employment Benefits	14,943,967	13,852,211	—	1,091,756	13,852,211
Bonds outstanding:					
2003 Revenue Bonds	1,044,484,046	1,063,602,784	1,064,776,522	(19,118,738)	(1,173,738)
Unamortized loss on extinguishment	(30,070,462)	(31,846,828)	(33,623,195)	1,776,366	1,776,367
Total noncurrent liabilities	1,230,182,894	1,153,689,483	1,140,546,643	76,493,411	13,142,840
Total liabilities	$ 1,418,909,882	1,307,153,426	1,357,992,772	111,756,456	(50,839,346)

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

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

The $111.8 million increase in total liabilities is primarily due to a $9.6 million increase in the provision to the City, a $90.1 million increase in total deferred revenue, and an $8.5 million increase in security and other deposits.

The increase in the provision for amounts due to the City of $9.6 million relates 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.

Total deferred revenue increased $90.1 million from $129.3 million at October 31, 2007 to $219.4 million at October 31, 2008 and 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 (see note 3).

Total security and other deposits increased $8.5 million 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 together with interest earnings on tenant deposits and other escrowed funds held by the Authority.

Additionally, accrued interest on bonds increased $480 thousand 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 (see note 10).

Accounts payable and other liabilities increased $1.3 million to $7.1 million at October 31, 2008 primarily due to the timing of vendor payments (see note 13) offset by credits provided to certain condominium tenants as part of a prior period rent agreement.

On October 16, 2003, the Authority issued $1.068 billion for the 2003 Revenue Bonds. Principal payments on these debt obligations begin November 2008. The $1.2 million decrease in the total 2003 Revenue Bonds balance is due to amortization of the net bond premium. A $17.9 million principal payment on the 2003 Series A and Series C Bonds, due November 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.

In accordance with GASB Statement No. 45, a $13.8 million accrued postretirement medical benefit liability for all eligible current and retired employees was recorded during the fiscal period ended October 31, 2007. The annual required OPEB obligation was increased by normal costs for current employees and interest expense and offset by the actual cost of retiree benefits paid during the fiscal year ended October 31, 2008 (see note 16) resulting in an accrued liability balance of $14.9 million at October 31, 2008.

2007 vs 2006

The Organization's total liabilities decreased approximately $50.8 million from $1.358 billion at October 31, 2006 to $1.307 billion at October 31, 2007.

The $50.8 million decrease in total liabilities is primarily due to a $28.3 million decrease in the provision to the City, a $36.7 million decrease in the provision to the NYC Housing Trust Fund offset by a $13.9 million increase in other postemployment benefits.

The decrease in the provision for amounts due to the City of $28.3 million relates to excess revenues of $111.4 million accrued at October 31, 2006, which was paid in June 2007, compared to an $83.1 million provision accrued at October 31, 2007.

The $36.7 million provision for the NYC Housing Fund at October 31, 2006 was paid in February 2007.

In accordance with GASB Statement No. 45, a $14 million accrued postretirement medical benefit liability for all eligible current and retired employees was recorded. The annual required OPEB obligation was offset by the actual cost of retiree benefits paid during the fiscal year ended October 31, 2007.

Additionally, accounts payable and other liabilities decreased $2.1 million to $5.8 million at October 31, 2007 primarily due to the timing of vendor payments and the funding of the Authority's operating account to support checks issued, offset by credits issued to certain condominium tenants as part of a legal settlement.

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

Net Assets (Deficit)

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. 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 $397.7 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used. These assets are generally restricted under Bond Resolutions and other agreements and for debt service. The remaining balance is classified as an unrestricted deficit totaling approximately $700.1 million resulting primarily from debt issued for noncapital purposes totaling approximately $580 million and upfront lease payments and deferred PILOT revenue received in advance, which are transferred to the City annually or held in the Joint Purpose Fund as restricted assets.

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

2007 vs 2006

The net deficits at October 31, 2007 and 2006 were $352.5 million and $405.2 million, respectively. The net (deficit) assets invested in capital assets, net of related debt was $249 thousand at October 31, 2007 and $5 million at October 31, 2006. The Organization's $283 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Organization. The remaining balance is classified as an unrestricted deficit totaling approximately $635.7 million.

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, 2008, 2007 and 2006:

	October 31			2008 vs	2007 vs
	2008	2007	2006	2007	2006
Operating revenues:					
Revenues from ground leases:					
Base rent	$ 57,374,979	52,718,959	54,458,404	4,656,020	(1,739,445)
Supplemental rent	715,188	604,069	670,875	111,119	(66,806)
Payments in lieu of real estate taxes	131,884,420	131,903,617	130,727,937	(19,197)	1,175,680
Civic facilities payments and others	21,600,614	21,292,003	6,560,860	308,611	14,731,143
Total operating revenues	211,575,201	206,518,648	192,418,076	5,056,553	14,100,572
Operating expenses:					
Wages and related benefits	13,225,261	13,960,397	6,412,543	(735,136)	7,547,854
OPEB	1,304,346	14,019,165	—	(12,714,819)	14,019,165
Other operating and administrative	16,333,034	17,609,049	23,555,617	(1,276,015)	(5,946,568)
Depreciation and amortization	8,494,364	7,997,894	7,948,784	496,470	49,110
Total operating expenses	39,357,005	53,586,505	37,916,944	(14,229,500)	15,669,561
Operating income	172,218,196	152,932,143	154,501,132	19,286,053	(1,568,989)
Nonoperating revenues (expenses):					
Interest and other income	21,254,895	25,886,969	23,884,018	(4,632,074)	2,002,951
Other revenue	5,390,357	340,150	—	5,050,207	340,150
Interest expense, net	(56,392,229)	(43,308,092)	(42,625,329)	(13,084,137)	(682,763)
Provision for transfer to the City of New York	(92,736,000)	(83,100,000)	(111,395,000)	(9,636,000)	28,295,000
Provision for transfer to the NYC Housing Trust Fund	—	—	(130,000,000)	—	130,000,000
Total nonoperating expenses, net	(122,482,977)	(100,180,973)	(260,136,311)	(22,302,004)	159,955,338
Change in net assets	49,735,219	52,751,170	(105,635,179)	(3,015,951)	158,386,349
Net deficit, beginning of year	(352,462,109)	(405,213,279)	(299,578,100)	52,751,170	(105,635,179)
Net deficit, end of year	$ (302,726,890)	(352,462,109)	(405,213,279)	49,735,219	52,751,170

(Continued)

Operating Revenues

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.

2007 vs 2006

Overall operating revenues for the fiscal years ended October 31, 2007 and 2006 totaled $206.5 million and $192.4 million, respectively. Base rent revenue of $52.7 million for the fiscal year ended October 31, 2007 decreased $1.7 million from October 31, 2006 primarily due to a one-time adjustment to the recognition period of revenues received in advance, which resulted in an additional $4.3 million recognized during the fiscal year ended October 31, 2006. The adjustment recorded in the prior year offset increases in scheduled lease payments and other base rent recognized during the fiscal year ended October 31, 2007. In addition, PILOT revenues (which account for approximately 63.8% of operating revenues) increased marginally by $1.2 million, as a result of additions in assessments and collections on new leased parcels offset by a decrease in tax rates by the City. Civic facility and other revenues increased approximately $14.7 million from $6.56 million for the fiscal year ended October 31, 2006 to approximately $21.3 million for the fiscal year ended October 31, 2007. The increase was primarily due to a $6.8 million arbitration award for retail rents due to the Authority from the World Financial Center commercial buildings, Towers B and D, $3.5 million from transaction and administrative payments received on the sale of residential units in Site 2A, approximately $900 thousand recognized for pre-lease and interest earnings from newly leased Sites 23 and 24, and increases in civic facility and other payments received during the fiscal year ended October 31, 2007.

Operating Expenses

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. 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 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.

2007 vs 2006

Operating expenses totaled approximately $53.6 million for the fiscal year ended October 31, 2007, approximately $15.7 million higher than the fiscal year ended October 31, 2006.

Wages and related benefits increased $7.5 million from $6.4 million at October 31, 2006 to $14 million at October 31, 2007. Other operating and administrative expenses decreased by approximately $5.9 million from $23.6 million at October 31, 2006 to $17.6 million at October 31, 2007. The primary factor causing these fluctuations is a reclassification of $6.1 million from other operating and administrative expenses to wages and related benefits for fiscal 2007 made to conform to the 2008 presentation of the Authority's consolidation of the Conservancy (see note 18).

In connection with the adoption of GASB Statement No. 45, the Authority expensed the actuarially derived OPEB obligation for eligible current and retired employees and recorded a charge of $14 million for the fiscal year ended October 31, 2007 (see note 16).

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

Nonoperating Revenues (Expenses)

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.

2007 vs 2006

Total net nonoperating expenses decreased $160 million from $260.1 million for the fiscal year ended October 31, 2006 to $100.2 million during the fiscal year ended October 31, 2007. The decrease was primarily due to a $130 million expense incurred during the fiscal year ended October 31, 2006 representing amounts due to the New York City Housing Trust Fund. In addition, a provision for a transfer to the City of $83.1 million in excess revenues was charged for the fiscal year ended October 31, 2007, a decrease of approximately $28.3 million from the fiscal year ended October 31, 2006. Offsetting the decreases to net nonoperating expenses, net interest expense increased approximately $683 thousand for the fiscal year ended October 31, 2007 and is due to higher interest rates paid on the variable rate 2003 Revenue Bonds offset by higher interest rates earned on the interest rate exchange agreements entered into in 2003. Investment and other income increased $2 million over the prior fiscal year due to an increase in the fair market value of investments held at October 31, 2007 as compared to October 31, 2006, as well as greater realized gains on investments which offset lower market interest rates available on investments for the fiscal year ended October 31, 2007.

Change in Net Assets

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

The total net deficits at October 31, 2007 and 2006 were $352.5 million and $405.2 million, respectively.

Other Information

Debt Administration – At October 31, 2008, the Authority was responsible for debt service on $1.062 billion of 2003 Revenue Bonds issued in October 2003. The 2003 Revenue Bonds include: $427 million (including a net premium) of senior lien obligations and $635 million of junior lien debt obligations:

2003 Revenue Bonds	Outstanding debt	Fitch	Moody's	Standard & Poor's (S&P)
2003 Series Senior A Bonds	$ 427,429,046	AAA	Aaa	AAA
2003 Series Junior B Bonds*	235,000,000	AAA	Aa+	AAA
2003 Series Junior C Bonds*	400,000,000	AAA	Aa+	AAA

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

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

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Balance Sheets

October 31, 2008 and 2007

Assets	2008	2007
Current assets:		
Bank deposits (note 3)	$ 298,339	227,598
Investments (note 3)	7,133,857	3,934,864
Corporate-designated, escrowed and OPEB funds (notes 3 and 16)	17,609,573	17,090,801
Restricted assets:		
Rents and other receivables (net of allowance for doubtful accounts of $80,980 in 2008 and $113,667 in 2007) (note 12)	13,740,606	14,433,345
2003 Revenue Bond Resolution Funds (notes 3, 8, 9, and 10)	161,190,959	124,446,606
Total current assets	199,973,334	160,133,214
Noncurrent assets:		
Restricted assets:		
2003 Revenue Bond Resolution Funds (notes 3, 8, 9, and 10)	179,196,550	170,265,861
Residential lease required funds (note 3)	15,589,335	7,620,015
Corporate-designated, escrowed and OPEB funds (notes 3 and 16)	223,685,758	173,090,648
Deferred costs (note 3):		
Bond issuance costs, less accumulated amortization of $12,855,800 in 2008 and $11,417,325 in 2007	37,907,248	39,345,722
Costs of leases, less accumulated amortization of $817,307 in 2008 and $767,580 in 2007	3,862,220	2,569,715
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, 4, and 9)	449,568,884	394,607,108
Other assets	6,399,663	7,059,034
Total noncurrent assets	916,209,658	794,558,103
Total assets	$ 1,116,182,992	954,691,317

(Continued)

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

Balance Sheets

October 31, 2008 and 2007

Liabilities and Net Deficit	**2008**	**2007**
Current liabilities:		
Accrued interest on bonds	$ 18,301,915	17,822,091
Accounts payable and other liabilities (note 13)	7,087,189	5,776,476
Due to the City of New York (note 11)	92,736,000	83,100,000
Deferred revenue (note 3):		
PILOT revenue	22,422,288	21,766,569
Base rent revenue and other revenue	12,625,023	7,905,932
Security and other deposits	17,609,573	17,092,875
2003 Revenue Bonds (note 8)	17,945,000	—
Total current liabilities	188,726,988	153,463,943
Noncurrent liabilities:		
Deferred revenue (note 3):		
Base rent revenue and other revenue	184,382,843	99,656,028
Security and other deposits	16,442,500	8,425,288
OPEB (note 16)	14,943,967	13,852,211
Bonds outstanding (notes 8, 9 and 10):		
2003 Revenue Bonds, less accumulated amortization of $5,916,925 in 2008 and $4,743,187 in 2007	1,044,484,046	1,063,602,784
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(30,070,462)	(31,846,828)
Total noncurrent liabilities	1,230,182,894	1,153,689,483
Total liabilities	1,418,909,882	1,307,153,426
Net assets (deficit) (note 3):		
Invested in capital assets, net of related debt	(280,135)	248,751
Restricted:		
Debt service	112,955,906	103,218,708
Under bond resolutions and other agreements	284,699,364	179,782,237
Unrestricted deficit	(700,102,025)	(635,711,805)
Total net deficit	(302,726,890)	(352,462,109)
Total liabilities and net deficit	$ 1,116,182,992	954,691,317

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, 2008 and 2007

		2008	2007
Operating revenues:			
Revenues from ground leases (notes 5, 6, and 7):			
Base rent	$	57,374,979	52,718,959
Supplemental rent		715,188	604,069
Payments in lieu of real estate taxes		131,884,420	131,903,617
Civic facilities payments and other		21,600,614	21,292,003
Total operating revenues		211,575,201	206,518,648
Operating expenses:			
Wages and related benefits		13,225,261	13,960,397
OPEB (note 16)		1,304,346	14,019,165
Other operating and administrative		16,333,034	17,609,049
Depreciation of project assets		5,463,430	4,727,751
Other depreciation and amortization		3,030,934	3,270,143
Total operating expenses		39,357,005	53,586,505
Operating income		172,218,196	152,932,143
Nonoperating revenues (expenses):			
Interest income on funds relating to:			
2003 Revenue Bonds (note 10)		4,535,858	3,933,196
Corporate-designated, escrowed and OPEB funds		4,493,680	4,521,576
Realized and unrealized gains and losses		12,225,357	17,432,197
Other revenue		5,390,357	340,150
Interest expense relating to:			
2003 Swap Agreements – net interest (expense) income		(4,972,036)	266,957
2003 Revenue Bonds (note 10)		(49,643,827)	(41,798,683)
Loss from extinguishment		(1,776,366)	(1,776,366)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 11)		(92,736,000)	(83,100,000)
Total nonoperating expenses		(122,482,977)	(100,180,973)
Change in net assets		49,735,219	52,751,170
Net deficit, beginning of year (as restated, note 18)		(352,462,109)	(405,213,279)
Net deficit, end of year	$	(302,726,890)	(352,462,109)

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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	$ 275,776,961	199,058,301
Miscellaneous receipts	1,386,326	808,697
Total cash receipts from operating activities	277,163,287	199,866,998
Cash payments for:		
Salaries and benefits	(13,397,554)	(14,057,116)
Services and supplies	(17,343,322)	(18,096,056)
Total cash payments from operating activities	(30,740,876)	(32,153,172)
Net cash provided by operating activities	246,422,411	167,713,826
Cash flows from noncapital financing activities:		
Goldman Sachs payments for Battery Park City Library	(101,101)	(221,780)
Payment from lessees – site security deposits	7,592,601	—
Payment to Irish Hunger Memorial Foundation	(298,285)	—
NYC School Construction Authority receipt	1,640,829	—
NYC School Construction Authority payments	(2,858,060)	—
Payment to NYC Housing Trust Fund	—	(36,651,610)
Payment to New York City	(83,100,000)	(111,395,000)
Net cash used in noncapital financing activities	(77,124,016)	(148,268,390)
Cash flows from capital and related financing activities:		
Development costs – site improvements and construction	(28,549,820)	(15,417,353)
Fixed asset costs	(827,420)	(848,613)
Reimbursements for development/fixed asset costs	—	762,295
Defeasance Escrow Funds	—	343,492
Auction fees paid for variable debt	(1,634,791)	(1,606,875)
Payment made on the 2003 Swap Agreement	(13,808,000)	(13,808,000)
Swap interest payments received	9,086,301	14,118,335
Interest paid on 2003 Junior Revenue Bonds	(28,806,818)	(21,369,907)
Interest paid on 2003 Senior Revenue Bonds	(19,855,799)	(19,855,799)
Net cash used in capital and related financing activities	(84,396,347)	(57,682,425)
Cash flows from investing activities:		
Interest and realized gains received on investment securities	21,018,744	25,492,849
Fair value adjustment – short term securities	(209,308)	201,859
Redemption and sale of investment securities	668,450,126	381,669,770
Purchase of investment securities	(693,534,021)	(381,004,680)
Net cash (used in) provided by investing activities	(4,274,459)	26,359,798
Increase (decrease) in cash and cash equivalents	80,627,589	(11,877,191)
Cash and cash equivalents, beginning of year	249,496,947	261,374,138
Cash and cash equivalents, end of year	$ 330,124,536	249,496,947
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 172,218,196	152,932,143
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	8,494,364	7,997,894
Bad debt expense	(87,244)	(13,337)
Other	(1,303,364)	(226,655)
Changes in operating assets and liabilities:		
Decrease (increase) in rents and other receivables	215,565	(6,658,093)
Decrease in other assets	10,217	46,077
Increase (decrease) in accounts payable and other liabilities	411,339	(875,434)
Increase in OPEB	1,091,756	13,852,211
Increase in deferred revenue	65,371,582	659,020
Net cash provided by operating activities	$ 246,422,411	167,713,826
Reconciliation to cash and cash equivalents, end of period:		
Bank deposits	$ 298,339	227,598
Cash and cash equivalents (note 3)	15,660,627	4,389,105
Investments with less than 91-day maturities at purchase (note 3)	314,165,570	244,880,244
Cash and cash equivalents, end of period	$ 330,124,536	249,496,947

See accompanying notes to basic financial statements.

(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 9.3 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, community and cultural facilities, three public schools, a public library, condominium units and approximately 8,900 residential units (see notes 5, 6, and 7). Each of these elements has been completed, except for approximately 1.8 million square feet of commercial space comprising the Goldman Sachs headquarters located on Site 26, 1,321 residential units, and a public school on Site 2B. Construction is underway for a 462-unit residential condo on Site 3, a 268-unit residential condo on Sites 16/17, 2 residential buildings on Site 23 and 24 comprising 591 units, as well as the Goldman Sachs headquarters and the public school. 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.

(c) ***Project Assets***

Costs incurred by the Authority in developing the Project as of October 31, 2008 and 2007 are capitalized as project assets and classified as follows:

	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	3,254,147	350,918,498
Residential building and condominiums	43,268,009	43,738,283	—	87,006,292
Total project assets	460,955,169	63,239,421	3,254,147	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	57,775,991	2,814,215	449,568,884

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

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 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 2008 of $42 million, $60 million, $11.5 million and $4.75 million from residential buildings on Site 22, Site 16/17, Site 3, and Site 2A, respectively. Additionally, the Authority received $22.5 million, $33.9 million, and $14 million from Sites 23, 24, and 3, respectively during fiscal 2008. With the exception of Site 2A, the Authority is recognizing revenue for these payments on a straight-line basis over the first 25-year lease period. Upfront payments received from Site 2A will be recognized through May 2011 in accordance with the lease terms. In August 2005, the Site 26 commercial ground lease was signed, providing for a one time lump-sum base rent payment of approximately $161 million to be deposited with an escrow agent. The deposit was made in June 2007 and is due to be paid to the Authority in December 2009 subject to the fulfillment of certain conditions to be performed by the City. Base rent revenue relating to the one-time payment is being recognized on a pro-rata basis over the lease term. Amounts not recognized in the current fiscal year are reported as deferred revenue in current and noncurrent liabilities.

(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 or investments are fully collateralized or backed by the Federal Deposit Insurance Corporation (FDIC) or letters of credit. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks in the Authority's name.

Total investments and deposits held by the Organization at October 31, 2008 and 2007 included within the balance sheet accounts: investments, corporate-designated, escrowed, and postemployment benefit funds, bond resolution funds (see note 8), and residential lease required funds are as follows:

	2008			2007		
	Cost	Fair value	Weighted average maturity (years) (a)	Cost	Fair value	Weighted average maturity (years) (a)
U.S. Treasury securities	$ 31,736,868	35,883,316	5.52	$ 43,700,486	46,427,766	4.29
Commercial paper	156,690,912	157,257,220	0.07	91,987,254	92,376,392	0.11
Federal agency securities	352,187,646	353,467,636	0.70	302,538,581	303,740,235	0.73
Federal agency mortgage-backed securities	38,981,557	38,182,427	3.52	44,975,563	44,175,293	2.87
Municipal bonds	3,280,000	3,280,000	0.02	4,930,000	4,930,000	0.02
Total investments	582,876,983	588,070,599	1.00	488,131,884	491,649,686	1.13
Cash and cash equivalents	16,334,920	16,335,433		4,799,109	4,799,109	
Total investments and deposits	$ 599,211,903	604,406,032		$ 492,930,993	496,448,795	

(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, 2008 were A1/P1; and (iv) municipal bonds issued by New York authorities that currently receive the highest rating by at least one rating agency (AAA/AAA long-term or VMIG1/A1+ short-term).

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

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

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

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

The Conservancy maintains its cash in Certificates of Deposits and bank deposits, which are guaranteed by the FDIC up to $250,000 through December 31, 2009. 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

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

(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. Noncash transactions relating to capital include $7.6 million representing North Cove Marina assets acquired from a defaulted lessee, $25.7 million representing condominium units that will serve as a community center and ball field maintenance facility, and other miscellaneous items.

(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 fiscal 2007 amounts were reclassified to conform to the fiscal 2008 presentation.

(4) Rights of City to Reacquire Project Site

The fee interest in the Project site formerly owned by the City was conveyed to the Authority in the early 1980s for a nominal consideration. The City has the right to reacquire the Project site at any time, subject to the then-existing leases, for a nominal consideration after: (a) all notes, bonds (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, 2008, the City had not expressed its intent regarding its right to reacquire the Project site.

(5) Commercial Development

In 1981, the Authority and Olympia & York Battery Park Company (O&Y), an affiliate of Olympia & York Development Limited, entered into a lease pursuant to which O&Y constructed four buildings, consisting principally of approximately 7,500,000 (6,000,000 net rentable) square feet of office space and a maximum of 280,000 square feet of commercial and retail space. These buildings are collectively known as the World Financial Center (WFC). In 1983, the lease was replaced with four separate severance leases, one of which was assigned by O&Y to the American Express Company and certain of its affiliates (American Express). O&Y has been reorganized as a result of bankruptcy proceedings and has changed its name to Brookfield Financial Properties (BFP). In September 2002, BFP acquired an interest in approximately 50% of Three World Financial Center from American Express.

As of October 31, 2008, the WFC leases, which expire in 2069, provide for future base rent payments aggregating approximately $1.066 billion over the remaining lease terms in the following annual amounts: (i) base rent of $17,000,000 per annum from 2009 through 2069 and (ii) additional base rent of $5,561,220 per annum payable by the BFP-affiliated lessees (2000 to 2014), and an additional $3,106,674 per annum payable by American Express (2000 to 2009) (see note 7). In addition, the leases provide for rent relating to retail and other space and, with respect to each building, percentage rent based on cash flow, as defined, which commenced in 1997 and continues to 2016. Annual PILOT is also required to be paid to the Authority based on the assessed value of each building and the tax rate then applicable to real property located in the borough of Manhattan, unless alternative PILOT arrangements are set forth in the ground lease. The City determines the assessed value of each building. Each lessee, or certain authorized tenants of the lessee, has the right to appeal the assessment to the City Tax Commission and bring tax certiorari proceedings in State court to seek reductions in the amounts of such assessments. A number of administrative and judicial appeals on some of the parcels are currently pending for the current and prior tax years. While any such proceedings are pending, the lessee is required to pay PILOT based upon the assessments established by the City. If a lessee is successful in any such proceedings, subsequent rental payments to the Authority will be reduced to the extent necessary to offset the prior overpayment of PILOT as a result of the revised assessment.

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

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

In August 2005, a lease was signed by Goldman Sachs for the development of approximately 1.8 million square feet of trading and office headquarter space on Site 26 in the north neighborhood. The Site 26 ground lease requires that a $161 million lump sum rent payment be deposited with an escrow agent, which was made in June 2007 and is due to be paid to the Authority in December 2009, subject to the fulfillment of certain conditions to be performed by the City. PILOT payments under the lease are made subject to credits for transfer taxes paid to the City and incentive exemptions to Goldman Sachs, which are contingent on Goldman Sachs' employment and headquarter commitments to the City. In addition, in December 2005, Goldman Sachs made a $3.5 million lease payment to the Authority which is held in escrow for the benefit of the local community board to help fund a library in the base of Site 16/17, a residential building in the north neighborhood. For the fiscal year ended October 31, 2008, approximately $101 thousand was disbursed to the NYC Public Library by the Authority.

(6) Residential and Other Development

In 1980, the Authority entered into a lease with a limited-profit housing company (the Housing Company), which constructed an apartment complex consisting of 1,712 rental apartment units (the Gateway Project). In addition to the Gateway Project, the Authority entered into leases in the south neighborhood, pursuant to which developers constructed 17 buildings consisting of approximately 3,605 condominium and rental units, including 114 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. The final site on the Project was designated as a public school. In the north neighborhood, 8 buildings consisting of approximately 2,237 units have been constructed. All the leases expire in 2069.

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

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

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

On November 15, 2007 ground leases for Site 23 and Site 24, the last residential sites available for development in Battery Park City, between the Authority and MP Freedom LLC and MP Liberty LLC, respectively, became effective (both MP entities are controlled by The Milstein Organization). Under the leases, the tenants made pre-lease and lease payments totaling approximately $60 million, including an upfront lease payment of $56.5 million. Approximately $4.5 million of base rent, $896 thousand of 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 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, 2009 through 2013 and thereafter are as follows:

	2009	2010	2011	2012	2013	Thereafter	Total
				(In thousands)			
Commercial development:							
Base rent	$ 27,155	24,743	25,098	25,114	25,130	1,245,266	1,372,506
Residential developments:							
Gateway Project base rent	305	305	305	305	305	8,145	9,670 (a)
South residential:							
Base rent	13,129	13,466	14,490	17,218	17,754	1,340,080	1,416,137
Other minimum payments	12,620	8,242	7,373	2,049	—	—	30,284
Subtotal South residential	25,749	21,708	21,863	19,267	17,754	1,340,080	1,446,421
North residential:							
Base rent	3,466	3,546	3,654	3,706	3,760	374,817	392,949
Other minimum payments	4,092	4,148	4,203	4,457	4,810	41,903	63,613
Subtotal North residential	7,558	7,694	7,857	8,163	8,570	416,720	456,562
Total	$ 60,767	54,450	55,123	52,849	51,759	3,010,211	3,285,159

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

Amounts in the above tabulation do not include PILOT (other than minimum supplemental rent payments under the second phase residential leases) and other payments to be received under ground leases. The minimum payments will be recorded as revenues (supplemental rents) only to the extent that minimum amounts exceed PILOT revenues due. In addition, future minimum lease revenues in connection with leases for which the buildings have not been built by developers and are not fully occupied are not included. Revenues to be paid 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, 2008 and 2007:

	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
	$ 279,313,946	27,730,863	33,342,700	340,387,509

	October 31, 2007			
	2003 Revenue Bonds			
	General Bond Resolution	Senior Bond	Junior Bond	Total
Debt Service Funds	$ —	12,306,381	34,088,373	46,394,754
Reserve Fund	72,765,545	—	—	72,765,545
Project Costs Fund	39,154,120	—	—	39,154,120
Project Operating Fund	9,035,283	—	—	9,035,283
Residual Fund	9,720,062	—	—	9,720,062
Pledged Revenue Fund	117,642,703	—	—	117,642,703
	$ 248,317,713	12,306,381	34,088,373	294,712,467

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.

Debt Service Reserve Funds and dedicated revenue funds, to the extent not utilized to fund any future debt service deficiencies, will be available to retire bonds issued thereunder in the last year of bond maturity.

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; and (e) $150 million for the purpose of making a payment to the City plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Such authorized amounts exclude bonds and notes issued to refund outstanding bonds and notes.

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

The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed $110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of October 31, 2008, 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.

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, 2008 and 2007.

At October 31, 2008, the 2003 Series A Bonds consist of the following serial bonds:

	Coupon rates	Principal amounts	Interest
Fiscal year ended October 31:			
2009	2.10%	$ 14,570,000	19,702,814
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 – 2018	3.50 – 5.50	91,580,000	74,504,545
2019 – 2023	4.00 – 5.25	121,875,000	47,000,941
2024 – 2027	4.60 – 5.00	122,120,000	12,553,078
		$ 406,350,000	227,668,622

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, 2008 and 2007, the unamortized net bond premium was approximately $21.1 million and $22.3 million, respectively.

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

At October 31, 2008, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

	Junior B		Junior C		Total	
	Principal	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
Fiscal year ended October 31:						
2009	$ —	21,116,112	3,375,000	29,741,013	3,375,000	50,857,125
2010	—	21,116,112	5,450,000	29,383,118	5,450,000	50,499,230
2011	—	21,116,112	5,450,000	28,940,844	5,450,000	50,056,956
2012	—	21,116,112	5,450,000	28,498,570	5,450,000	49,614,682
2013	—	21,116,112	5,450,000	28,056,296	5,450,000	49,172,408
2014 – 2018	—	105,580,559	27,250,000	133,647,373	27,250,000	239,227,932
2019 – 2023	—	105,580,559	28,775,000	122,429,978	28,775,000	228,010,537
2024 – 2028	—	105,580,559	68,850,000	108,270,668	68,850,000	213,851,227
2029 – 2033	—	105,580,559	216,325,000	44,913,674	216,325,000	150,494,233
2034 – 2038	150,650,000	76,376,009	33,625,000	930,201	184,275,000	77,306,210
2039 – 2040	84,350,000	6,163,622	—	—	84,350,000	6,163,622
Total	$ 235,000,000	610,442,427	400,000,000	554,811,735	635,000,000	1,165,254,162

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

Interest in the above table is based on actual auction rates closest to October 31, 2008, which were 5.549%, 5.457%, and 4.988% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 5.457%, 8.006%, 8.5880%, 8.7180%, and 6.55% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C Bonds, respectively.

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

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 resulting in higher interest rates paid on the 2003 Series B and C Junior Revenue Bonds (variable-rate subordinate debt). On any failed auction date, the reset rate is set at a percentage of the 30-day London InterBank Offered Rate (LIBOR) based on the prevailing rating for the bond series. The rates applied to the 30 day LIBOR on the 2003 Series B and C Bonds are 175%, 200% or 225% for bonds rated AAA/AAA/Aaa, AA/AA/Aa, and A/A/A, respectively, depending on the prevailing rating of the series of bonds outstanding. The reset rates on auctions that settled from mid February 2008 through 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.

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 $400,000,000. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds. The Authority executed the Swaps in order to effectively convert the variable-rate Bonds to a net fixed rate. Based on the Swap agreements, the Authority owes interest to the Swap counterparties calculated at a fixed rate of 3.452% and paid semiannually. In return, on a monthly basis, the counterparties pay the Authority floating-rate interest equal to 65% of the 1-month LIBOR.

	2003 Series C principal	Interest rate swaps Payment	Receipts	Net payment
Fiscal year ended October 31:				
2009	$ 3,375,000	(13,749,748)	6,688,976	(7,060,772)
2010	5,450,000	(13,597,428)	6,596,887	(7,000,541)
2011	5,450,000	(13,409,294)	6,504,833	(6,904,461)
2012	5,450,000	(13,221,160)	6,412,743	(6,808,417)
2013	5,450,000	(13,033,026)	6,320,689	(6,712,337)
2014 – 2018	27,250,000	(62,343,120)	30,222,316	(32,120,804)
2019 – 2023	28,775,000	(57,572,025)	27,874,529	(29,697,496)
2024 – 2028	68,885,000	(51,548,716)	24,588,233	(26,960,483)
2029 – 2033	216,325,000	(23,864,971)	9,805,759	(14,059,212)
2034	33,625,000	(580,368)	—	(580,368)
	$ 400,035,000	(262,919,856)	125,014,965	(137,904,891)

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, 2008 (65% of 2.58125% or 1.6778%). Receipts are projected based on the latest interest rate at October 31, 2008, but will vary monthly.

The Swaps had a negative fair market value of approximately $33.3 million at October 31, 2008. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time. The 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.

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

Debt service on the Senior Bonds (including the 2003 Series A Bonds) and on the Junior Bonds (including the 2003 Series B Bonds and the 2003 Series C Bonds) is secured by and payable, after satisfaction of certain administrative, operating, and maintenance obligations of the Authority, solely from certain pledged lease revenues and Swap receipts, which are required to be deposited and maintained in the PRF 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.

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

The Authority entered into a settlement agreement (the Settlement Agreement) with the City, which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 Revenue Bonds, and on any bonds issued to finance the HNYC housing program (see notes 9 and 10), certain site development costs, and any agreed-upon commitments, will be remitted to the City; and (ii) all other rent payments and other revenue received by the Authority, remaining after payment of a proportionate part of the aforementioned items, will be retained by the Authority and spent in such manner and for such purposes as the Authority and the City shall jointly determine (see note 17(f)).

The $83.1 million provided for the transfer to the City at fiscal year ended October 31, 2007 was paid in June 2008. A provision in the amount of $92.7 million was charged to operations for the fiscal year ended October 31, 2008. The Authority retained approximately $98.7 million of fiscal year 2008 and $43.9 million of fiscal year 2007 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.

(12) Rents and Other Receivables

Rents and other receivables comprise the following at October 31, 2008 and 2007:

		2008	2007
Swap interest receivable	$	896,116	1,146,452
Miscellaneous receivables		1,942,847	1,342,464
Interest receivable		1,620,365	1,934,516
Rents receivable		9,362,258	10,123,580
Total receivables		13,821,586	14,547,012
Less allowance for doubtful accounts		(80,980)	(113,667)
Net receivables	$	13,740,606	14,433,345

Rents receivable include accumulated amounts recognized relating to the Goldman Sachs escrow deposit due to be paid to the Authority in December 2009, approximately $8 million through October 31, 2008 and $5.5 million through October 31, 2007.

(13) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at October 31, 2008 and 2007 comprise the following:

		2008	2007
Amounts due to vendors	$	3,557,429	1,996,303
Contract retention costs		2,961,194	2,852,471
Due to developers		27,500	27,500
Accrued payroll and benefits		541,066	494,005
Accrued legal settlement		—	406,197
Total	$	7,087,189	5,776,476

(14) Long-Term Liabilities

The Organization's bonds and other long-term liabilities as of October 31, 2008 and 2007 are comprised of the following obligations:

	October 31, 2007	Additions	Deletions	October 31, 2008	Due within one year
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

	October 31, 2006	Additions	Deletions	October 31, 2007	Due within one year
Authority Bonds Outstanding:					
2003 Revenue Bonds:					
Series 2003A	$ 406,350,000	—	—	406,350,000	—
Series 2003B	235,000,000	—	—	235,000,000	—
Series 2003C	400,000,000	—	—	400,000,000	—
Subtotal	1,041,350,000	—	—	1,041,350,000	—
Unamortized net premiums	23,426,522	—	1,173,738	22,252,784	—
Total bonds outstanding	1,064,776,522	—	1,173,738	1,063,602,784	—
Other long-term liabilities:					
Unamortized loss on extinguishment	(33,623,195)	—	(1,776,367)	(31,846,828)	—
Other postemployment benefits	—	14,019,165	166,954	13,852,211	—
Deferred revenue	128,724,663	34,220,533	33,616,667	129,328,529	29,672,501
Security and other deposits	24,473,931	1,044,232	—	25,518,163	17,092,875
Total other long-term liabilities	119,575,399	49,283,930	32,007,254	136,852,075	46,765,376
Total long-term liabilities	$ 1,184,351,921	49,283,930	33,180,992	1,200,454,859	46,765,376

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 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:

2008	$	454,632
2007		392,719
2006		498,294
Total	$	1,345,645

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 and amounted to $98,014 for the fiscal year ended October 31, 2007, while employee contributions were $222,703 for the fiscal year ended October 31, 2007. No contributions were made by the Conservancy or their employees for the fiscal year ended October 31, 2008.

In March 2007, the Conservancy replaced the TDSA by entering into a retirement benefits plan administered by Cultural Institutions Retirement System (CIRS) for all eligible employees. CIRS' retirement benefit plan is a cost-sharing multiple-employer sponsored plan consisting of a defined benefit plan (CIRS Pension Plan) and a Section 401(k) defined contribution plan (CIRS Savings Plan). CIRS is responsible for administering all aspects of the CIRS Pension Plan, including the investment of CIRS Plan assets that are held in trust for beneficiaries of the CIRS Pension Plan. The CIRS Savings Plan allows participants to select their own investments from a range of options. CIRS issues an annual financial summary report for the Plans. The report can be obtained by contacting Cultural Institutions Retirement System or on their website at www.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, exclusive of payments made directly by the Authority for retroactive service credit, amounted to $265,902 and $248,967 for the fiscal

(Continued)

years ended October 31, 2008 and 2007, respectively. The cost for retroactive service credit amounted to $1,289,969 and was fully and directly funded by the Authority in June 2007 using funds held by the Authority on behalf on the Conservancy in the Operating Reserve Fund.

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, 2008 and 2007 are $222,984 and $40,805, 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 95 participants, including 60 current employees, 4 vestees, and 31 retired and/or spouses of retired employees were eligible to receive these benefits at October 31, 2008. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State.

Effective November 1, 2006, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GASB Statement No. 45. Through the fiscal year ended October 31, 2006, OPEB provisions were financed on a pay-as-you-go basis. The first actuarial valuation date is November 1, 2006. Actuarial valuations involve estimates of the value of reported amounts, assumptions about the probability of events in the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about employment mortality and the healthcare cost trend.

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

(d) ***OPEB Status and Funding Progress***

The Authority's OPEB obligation and the funded status of the plan as of October 31, 2008 and 2007 are as follows:

		2008	2007
Actuarial Accrued Liability (AAL):			
Net OPEB obligation beginning of year	$	13,852,211	—
Annual required contribution (ARC):			
Normal cost		722,719	688,304
Amortization of unfunded AAL		—	12,791,662
Interest to year-end		581,627	539,199
Payments for retirees during year		(212,590)	(166,954)
Net OPEB obligation end of year	$	14,943,967	13,852,211
Actuarial Accrued Liability (AAL) November 1, 2007 and 2006	$	13,852,211	12,791,662
Funded OPEB plan assets		—	—
Unfunded Actuarial Accrued Liability (UAAL) November 1, 2007 and 2006	$	13,852,211	12,791,662
Funded ratio (actuarial value of plan assets/AAL)		—%	—%
Covered payroll	$	5,001,187	5,001,187
UAAL as percentage of covered payroll		277%	256%

Corporate assets held at October 31, 2008 and 2007 in a separate Corporate OPEB account for the exclusive purpose of paying OPEB obligations were approximately $15.2 million and $14.2 million, respectively. The OPEB assets are included on the balance sheet within the other corporate designated, escrowed fund and postemployment benefit financial statement classification. The Authority's policy is to contribute the annual ARC to the designated account each year and pay all OPEB expenses from such account.

(17) Commitments and Other Matters

(a) The Authority has entered into construction and other related contracts having unexpended balances aggregating approximately $31.4 million as of October 31, 2008.

(b) The Authority rents office space in One World Financial Center, as well as community meeting space, field offices, and maintenance space in condominium buildings in Battery Park City. Total rent expense amounted to approximately $2 million and $2.1 million for the fiscal years ended October 31, 2008 and 2007, respectively.

(c) The terrorist attack on the World Trade Center on September 11, 2001 (9/11) destroyed the North Bridge and severely damaged the South Bridge owned by the Authority. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of $38,000,000. Pursuant to a written agreement made in December 2005, the insurance monies were deposited into a fund jointly controlled by the Authority and the management team of the World Financial Center (BFP, American Express Company, and Merrill Lynch & Co.) in May 2006 for the purpose of ensuring access into Battery Park City from the connection that will be built from the World Trade Center site and for the purpose of restoring the South Bridge. These funds are not recorded as assets of the Authority in the accompanying balance sheets.

(d) In November 2007, the Authority designated The New York City School Construction Authority (SCA) as the ground lessee and developer of Site 2B for the purpose of constructing a public school for elementary and intermediate school students. Site 2B, in the south neighborhood is the last parcel available for development. The project 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 based on the major terms described in the Term Sheet. Under the lease, the Authority will redevelop the Pier with funding provided by the City, which would then be used for recreational, maritime and ancillary uses, including retail purposes.

(f) On July 31, 2006, the members of the Authority approved the payment of $130 million of Joint Purpose Funds to the New York City Housing Trust Fund in accordance with a proposal by the Governor, the Mayor, and City Comptroller. The funds will be used for affordable housing programs by the City's Department of Housing Preservation and Development (HPD). Progress reports will be delivered by HPD annually and all investments and expenditures of the funds will be subject to audit by the City Comptroller. The HPD programs are projected to use the $130 million to provide an additional 4,300 of affordable housing units in the City by June 30, 2009. Approximately $93.4 million held in the Joint Purpose Fund was transferred to HPD in September 2006 and the $36.7 million balance was transferred in February 2007 in accordance with the agreement

(g) On October 23, 2007, the members of the Authority approved a proposal by the Governor to pay up to $40 million of Special Fund monies (see note 10) to the Port Authority of New York for the construction of a planned pedestrian concourse running under Route 9A. The concourse would connect the Winter Garden, (on the west at the edge of Battery Park City) and the World Trade Center site on the east. The proposal is subject to approval by the Mayor and City Comptroller.

(h) Pursuant to its ground lease with Goldman Sachs Headquarters LLC (Goldman) providing for construction by Goldman of a new world headquarters building in Battery Park City, the Authority entered into an arrangement as of July 18, 2007 under which Goldman may make purchases related to construction, furnishing and equipping the building without liability for New York State and City sales tax, for an aggregate sales tax exemption of up $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) is executing a guaranty to assure reimbursement of any amounts paid by the Authority as a consequence of this arrangement. The likelihood of any payments made directly by the Authority resulting from this arrangement is considered remote.

(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 an additional director. The Conservancy was formed by the Authority to comply with certain requirements of agreements between the Authority and the City pursuant to which the Authority is obligated to maintain and repair the parks and open spaces in and around Battery Park City's residential areas. In March 1988, the Authority entered into a management agreement with the Conservancy, which authorized the Conservancy to undertake all responsibilities, related to the operation, maintenance, and repair of such parks and open spaces. For fiscal years ended October 31, 2008 and 2007, the Authority paid the Conservancy approximately $7.6 million and $7.3 million, respectively, for services, which are included in the Authority's operating expenses. Approximately $16 thousand and $22 thousand is payable by the Authority to the Conservancy for the fiscal years ended October 31, 2008 and 2007, respectively, and are eliminated in the blending of the Conservancy's financial statements into the Authority's financial statements.

During fiscal year 2008 management of the Authority elected to report the Conservancy as a blended component unit of the Authority. The cumulative effect of this accounting change has resulted in an increase to ending net assets as of October 31, 2007 of $407,621.

(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 of New York.

(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 whom were undertaking clean-up activities for ground lessees of the Authority and tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. Certain 9/11 Claims have been dismissed or discontinued with prejudice with respect to the Authority on account of procedural defects. The remaining approximately 600 9/11 Claims are currently pending in Federal court.

The Authority's ground leases provide for ground lessees to indemnify the Authority against certain claims. To date, BFP, Merrill Lynch and Marina Towers have generally assumed responsibility for the defense of 9/11 Claims with respect to injuries sustained on property leased from the Authority by such entities or their affiliates. In addition, a number of 9/11 Claims have been tendered to the City, and claims may be tendered in the future to other ground lessees of the Authority.

Certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not cover the 9/11 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.

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

Other Supplementary Information – Combining Balance Sheet

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
Corporate-designated, escrowed and OPEB funds	17,609,573	—	—	17,609,573
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
Total current assets	199,668,301	321,059	(16,026)	199,973,334
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	179,196,550	—	—	179,196,550
Residential lease required funds	15,589,335	—	—	15,589,335
Corporate-designated, escrowed and OPEB funds	223,685,758	—	—	223,685,758
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	915,959,884	249,774	—	916,209,658
Total assets	$ 1,115,628,185	570,833	(16,026)	1,116,182,992

(Continued)

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

Other Supplementary Information – Combining Balance Sheet

October 31, 2008

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 revenue	22,422,288	—	—	22,422,288
Base rent and other revenue	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 revenue	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	112,955,906	—	—	112,955,906
Under bond resolutions and other agreements	284,699,364	—	—	284,699,364
Unrestricted (deficit) assets	(700,288,402)	186,377	—	(700,102,025)
Total net (deficit) assets	(302,913,267)	186,377	—	(302,726,890)
Total liabilities and net (deficit) assets	$ 1,115,628,185	570,833	(16,026)	1,116,182,992

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 Balance Sheet

October 31, 2007

Assets	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current assets:				
Bank deposits	$ 14,359	213,239	—	227,598
Investments	3,659,502	275,362	—	3,934,864
Corporate-designated, escrowed and OPEB funds	17,090,801	—	—	17,090,801
Restricted assets:				
Rents and other receivables (net of allowance for doubtful accounts of $113,667)	14,425,609	29,754	(22,018)	14,433,345
2003 Revenue Bond Resolution Funds	124,446,606	—	—	124,446,606
Total current assets	159,636,877	518,355	(22,018)	160,133,214
Noncurrent assets:				
Restricted assets:				
2003 Revenue Bond Resolution Funds	170,265,861	—	—	170,265,861
Residential lease required funds	7,620,015	—	—	7,620,015
Corporate-designated, escrowed and OPEB funds	173,090,648	—	—	173,090,648
Deferred costs:				
Bond issuance costs, less accumulated amortization of $11,417,325	39,345,722	—	—	39,345,722
Costs of leases, less accumulated amortization of $767,580	2,569,715	—	—	2,569,715
Battery Park City project assets – at cost, less accumulated depreciation	394,607,108	—	—	394,607,108
Other assets	6,779,850	279,184	—	7,059,034
Total noncurrent assets	794,278,919	279,184	—	794,558,103
Total assets	$ 953,915,796	797,539	(22,018)	954,691,317

(Continued)

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

Other Supplementary Information – Combining Balance Sheet

October 31, 2007

Liabilities and Net Deficit	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Current liabilities:				
Accrued interest on bonds	$ 17,822,091	—	—	17,822,091
Accounts payable and other liabilities	5,408,576	389,918	(22,018)	5,776,476
Due to the City of New York	83,100,000	—	—	83,100,000
Deferred revenue:				
PILOT revenue	21,766,569	—	—	21,766,569
Base rent and other revenue	7,905,932	—	—	7,905,932
Security and other deposits	17,092,875	—	—	17,092,875
Total current liabilities	153,096,043	389,918	(22,018)	153,463,943
Noncurrent liabilities:				
Deferred revenue:				
Base rent and other revenue	99,656,028	—	—	99,656,028
Security and other deposits	8,425,288	—	—	8,425,288
OPEB	13,852,211	—	—	13,852,211
Bonds outstanding:				
2003 Revenue Bonds, less accumulated amortization of $4,743,187	1,063,602,784	—	—	1,063,602,784
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	(31,846,828)	—	—	(31,846,828)
Total noncurrent liabilities	1,153,689,483	—	—	1,153,689,483
Total liabilities	1,306,785,526	389,918	(22,018)	1,307,153,426
Net assets (deficit):				
Invested in capital assets, net of related debt	248,751	—	—	248,751
Restricted:				
Debt service	103,218,708	—	—	103,218,708
Under bond resolutions and other agreements	179,498,440	283,797	—	179,782,237
Unrestricted (deficit) assets	(635,835,629)	123,824	—	(635,711,805)
Total net (deficit) assets	(352,869,730)	407,621	—	(352,462,109)
Total liabilities and net (deficit) assets	$ 953,915,796	797,539	(22,018)	954,691,317

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

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
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	21,142,956	9,026,186	(8,568,528)	21,600,614
Total operating revenues	211,117,543	9,026,186	(8,568,528)	211,575,201
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 expenses	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	2,944,761	86,173	—	3,030,934
Total operating expenses	38,976,388	9,007,363	(8,626,746)	39,357,005
Operating income	172,141,155	18,823	58,218	172,218,196
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	(92,736,000)	—	—	(92,736,000)
Total nonoperating expenses	(122,184,692)	(240,067)	(58,218)	(122,482,977)
Change in net assets	49,956,463	(221,244)	—	49,735,219
Net (deficit) assets, beginning of period	(352,869,730)	407,621		(352,462,109)
Net (deficit) assets, end of period	$ (302,913,267)	186,377	—	(302,726,890)

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, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Operating revenues:				
Revenues from ground leases:				
Base rent	$ 52,718,959	—	—	52,718,959
Supplemental rent	604,069	—	—	604,069
Payments in lieu of real estate taxes	131,903,617	—	—	131,903,617
Civic facilities payments and other	20,839,234	9,884,586	(9,431,817)	21,292,003
Total operating revenues	206,065,879	9,884,586	(9,431,817)	206,518,648
Operating expenses:				
Wages and related benefits	7,833,515	7,416,851	(1,289,969)	13,960,397
OPEB	14,019,165	—	—	14,019,165
Other operating and administrative expenses	23,461,540	2,383,860	(8,236,351)	17,609,049
Depreciation of project assets	4,727,751	—	—	4,727,751
Other depreciation and amortization	3,159,236	110,907	—	3,270,143
Total operating expenses	53,201,207	9,911,618	(9,526,320)	53,586,505
Operating income (expense)	152,864,672	(27,032)	94,503	152,932,143
Nonoperating revenues (expenses):				
Interest income on funds relating to:				
2003 Revenue Bonds	3,933,196	—	—	3,933,196
Corporate-designated, escrowed, and OPEB funds	4,521,576	—	—	4,521,576
Realized and unrealized gains and losses	17,432,197	—	—	17,432,197
Other revenue	—	94,503	245,647	340,150
Interest expense relating to:				
2003 Swap agreements – net interest income	266,957	—	—	266,957
2003 Revenue Bonds	(41,798,683)	—	—	(41,798,683)
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	(83,100,000)	—	—	(83,100,000)
Total nonoperating (expenses) revenue	(100,521,123)	94,503	245,647	(100,180,973)
Change in net assets	52,343,549	67,471	340,150	52,751,170
Net (deficit) assets, beginning of period	(405,213,279)	340,150	(340,150)	(405,213,279)
Net (deficit) assets, end of period	$ (352,869,730)	407,621	—	(352,462,109)

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	276,721,234	8,023,963	(7,581,910)	277,163,287
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	(30,451,221)	(7,929,783)	7,640,128	(30,740,876)
Net cash provided by operating activities	246,270,013	94,180	58,218	246,422,411
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(101,101)	—	—	(101,101)
Payment from lessees- site security deposits	7,592,601	—	—	7,592,601
Payment to Irish Hunger Memorial Foundation	—	(298,285)	—	(298,285)
NYC School Construction Authority receipt	1,640,829	—	—	1,640,829
NYC School Construction Authority payments	(2,858,060)	—	—	(2,858,060)
Payment to New York City	(83,100,000)	—	—	(83,100,000)
Net cash used in noncapital financing activities	(76,825,731)	(298,285)	—	(77,124,016)
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)
Cash receipts for development/capital asset expenditures	—	58,218	(58,218)	—
Auction fees for variable debt	(1,634,791)	—	—	(1,634,791)
Swap payment made on the 2003 Swap agreement	(13,808,000)	—	—	(13,808,000)
Swap interest payments received on the 2003 Swap agreement	9,086,301	—	—	9,086,301
Interest paid on 2003 Senior Revenue Bonds	(28,806,818)	—	—	(28,806,818)
Interest paid on 2003 Junior Revenue Bonds	(19,855,799)	—	—	(19,855,799)
Net cash used in capital and related financing activities	(84,338,129)	—	(58,218)	(84,396,347)
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	(4,549,821)	275,362	—	(4,274,459)
Increase in cash and cash equivalents	80,556,332	71,257	—	80,627,589
Cash and cash equivalents, beginning of period	249,283,708	213,239	—	249,496,947
Cash and cash equivalents, end of period	$ 329,840,040	284,496	—	330,124,536

(Continued)

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
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	$ 246,270,013	94,180	58,218	246,422,411
Reconciliation to cash and cash equivalents, end of period:				
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	314,165,570	—	—	314,165,570
Cash and cash equivalents, end of period	$ 329,840,040	284,496	—	330,124,536

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, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Cash flows from operating activities:				
Cash receipts from:				
Tenant payments	$ 199,058,301	—	—	199,058,301
Receipts from the Authority	—	7,211,962	(7,211,962)	—
Miscellaneous receipts	335,670	473,027	—	808,697
Total cash receipts from operating activities	199,393,971	7,684,989	(7,211,962)	199,866,998
Cash payments for:				
Salaries and benefits	(7,920,334)	(6,136,782)	—	(14,057,116)
Services and supplies	(23,939,046)	(1,463,475)	7,306,465	(18,096,056)
Total cash payments from operating activities	(31,859,380)	(7,600,257)	7,306,465	(32,153,172)
Net cash provided by operating activities	167,534,591	84,732	94,503	167,713,826
Cash flows from noncapital financing activities:				
Goldman Sachs payment for Battery Park City Library	(221,780)	—	—	(221,780)
Payment to the NYC Housing Trust Fund	(36,651,610)	—	—	(36,651,610)
Payment to New York City	(111,395,000)	—	—	(111,395,000)
Net cash used in noncapital financing activities	(148,268,390)	—	—	(148,268,390)
Cash flows from capital and related financing activities:				
Development costs – site improvements and construction	(15,417,353)	—	—	(15,417,353)
Capital asset expenditures	(754,110)	(94,503)	—	(848,613)
Cash receipts for development/capital asset expenditures	762,295	94,503	(94,503)	762,295
Defeasance escrow funds	343,492	—	—	343,492
Auction fees for variable debt	(1,606,875)	—	—	(1,606,875)
Swap payment made on the 2003 Swap agreement	(13,808,000)	—	—	(13,808,000)
Swap interest payments received on the 2003 Swap agreement	14,118,335	—	—	14,118,335
Interest paid on 2003 Senior Revenue Bonds	(21,369,907)	—	—	(21,369,907)
Interest paid on 2003 Junior Revenue Bonds	(19,855,799)	—	—	(19,855,799)
Net cash used in capital and related financing activities	(57,587,922)	—	(94,503)	(57,682,425)
Cash flows from investing activities:				
Interest and realized gains received on investment securities	25,492,849	—	—	25,492,849
Fair value adjustment short-term investments	201,859	—	—	201,859
Redemptions and sales of investment securities	381,669,770	—	—	381,669,770
Purchases of investment securities	(380,729,318)	(275,362)	—	(381,004,680)
Net cash provided by (used in) investing activities	26,635,160	(275,362)	—	26,359,798
Decrease in cash and cash equivalents	(11,686,561)	(190,630)	—	(11,877,191)
Cash and cash equivalents, beginning of period	260,970,269	403,869	—	261,374,138
Cash and cash equivalents, end of period	$ 249,283,708	213,239	—	249,496,947

(Continued)

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, 2007

	Battery Park City Authority	Battery Park City Parks Conservancy	Eliminations	Total
Reconciliation of operating income (expense) to net cash provided by operating activities:				
Operating income (expense)	$ 152,864,672	(27,032)	94,503	152,932,143
Adjustments to reconcile operating income (expense) to net cash provided by operating activities:				
Depreciation and amortization	7,886,987	110,907	—	7,997,894
Bad debt expense	(13,337)	—	—	(13,337)
Other	(226,655)	—	—	(226,655)
Changes in operating assets and liabilities:				
(Increase) decrease in rents and other receivables	(6,673,934)	19,340	(3,499)	(6,658,093)
(Increase) decrease in other assets	(7,589)	53,666	—	46,077
Decrease in accounts payable and other liabilities	(806,784)	(72,149)	3,499	(875,434)
Increase in OPEB	13,852,211	—	—	13,852,211
Increase in deferred revenue	659,020	—	—	659,020
Net cash provided by operating activities	$ 167,534,591	84,732	94,503	167,713,826
Reconciliation to cash and cash equivalents, end of period:				
Bank deposits	$ 14,359	213,239	—	227,598
Cash and cash equivalents	4,389,105	—	—	4,389,105
Investments with less than 91 day maturities	244,880,244	—	—	244,880,244
Cash and cash equivalents, end of period	$ 249,283,708	213,239	—	249,496,947

See accompanying independent auditors' report.