HUGH L. CAREY BATTERY PARK CITY AUTHORITY

(A Component Unit of the State of New York)

Basic Financial Statements

October 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG

KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Members
Hugh L. Carey Battery Park City Authority:

We have audited the accompanying basic financial statements of 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, 2004 and 2003, 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hugh L. Carey Battery Park City Authority as of October 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 17, 2005

Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) for fiscal years ended October 31, 2004 and 2003.

The basic financial statements of the Authority, which include the balance sheets, the statements of revenues, expenses, and changes in net assets (deficit), and the statements of cash flows, and the notes to the financial statements, provide information about the Authority in accordance with generally accepted accounting principles for governments, including Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Financial Highlights

- A provision for the transfer to the City of New York (the City) of $100.9 million in excess revenues was charged for the fiscal year ended October 31, 2004. Generally, the Authority's change in net assets will decrease with increases to the amount of excess revenues to be provided to the City, which will have an adverse effect on the Authority's net asset position.
- At October 31, 2004, the Authority retains approximately $45.6 million as corporate funds to be spent in a manner and for such purposes as the Authority and the City shall jointly decide ($40 million and $5.6 million retained at fiscal years ended October 31, 2004 and 2003, respectively). In addition, at fiscal year ended October 31, 2004, the Authority holds approximately $83.7 million in the debt service funds held under the 2003 Revenue Bond resolution for the purpose of paying interest expense on the 2003 Revenue Bonds and $89.7 million in the Project Cost account to be used for costs of certain park, street, and other infrastructure improvements and other capital expenditures (see note 9).
- During the year ended October 31, 2004, there was an increase of approximately $6 million or 5% in Payment in Lieu of Taxes (PILOT) revenue (which accounts for approximately 70% of the Authority's operating revenues) as a result of additions in assessments and tax rates by the City.

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Statement of Net Assets

The statement of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets are the difference between total assets and total liabilities. A summarized comparison of the Authority's assets, liabilities, and net assets (deficit) at October 31, 2004 and 2003 is as follows:

	October 31		Increase
	2004	**2003**	**(decrease)**
Assets:			
Current assets	$ 5,493,570	5,281,766	211,804
Bond resolution assets	370,728,587	444,509,164	(73,780,577)
Battery Park City project assets, net	350,005,899	340,320,110	9,685,789
Other noncurrent assets	336,319,934	321,135,883	15,184,051
Total assets	$ 1,062,547,990	1,111,246,923	(48,698,933)
Liabilities:			
Current liabilities	$ 173,224,604	224,240,784	(51,016,180)
Long-term liabilities	1,198,448,634	1,199,805,932	(1,357,298)
Total liabilities	1,371,673,238	1,424,046,716	(52,373,478)
Net assets (deficit):			
Invested in capital assets, net of related debt	(34,192,482)	(25,490,589)	(8,701,893)
Restricted	123,893,217	86,427,702	37,465,515
Unrestricted	(398,825,983)	(373,736,906)	(25,089,077)
Total net assets (deficit)	(309,125,248)	(312,799,793)	3,674,545
Total liabilities and net assets (deficit)	$ 1,062,547,990	1,111,246,923	(48,698,933)

As of October 31, 2004, the Authority maintained total assets of over $1.062 billion. The Authority's restricted noncurrent assets are predominantly related to funds and accounts established in accordance with the bond resolutions totaling approximately $370.7 million, which is approximately $73.8 million lower than the investment value of assets held at October 31, 2003, totaling $444.5 million. As of October 31, 2004, assets held under the 2003 Revenue Bond Resolutions include a debt service reserve and funds held for payment of debt service, bond issuance costs interest expense, construction of site improvements, and excess revenues available to be applied by the Authority to any lawful corporate purposes (see note 9). The decrease of $73.8 million from $444.5 million at October 31, 2003 to $370.7 million at October 31, 2004 was primarily due to $19.5 million expended for debt service, $9.3 million used to pay bond issuance costs accrued in prior year, $1 million for construction of site improvements, and a net decrease of approximately $50.3 million in excess revenues held in the Residual Fund during the fiscal year ended October 31, 2004. These decreases were offset by interest earnings and deposits of approximately $7.2 million made to funds as required by the bond resolutions.

Collectively, other noncurrent assets increased approximately $15.2 million from $321.1 million at October 31, 2003 to $336.3 million at October 31, 2004. Corporate-designated assets increased approximately $22.8 million resulting primarily from an additional deposit of approximately $40 million to the joint purpose funds (see note 14) at October 31, 2004, which was offset by $14.5 million of funds expended from other corporate funds held for the construction of infrastructure. Asset balances on deferred costs for 'bond issuance costs', 'costs of leases', and the 'unamortized loss on extinguishment of bonds' are being ratably amortized and the balances at October 31, 2004 are $1.4 million, $600 thousand, and $2.8 million less, respectively, than the previous years' balances. In addition, the principal balances on the 'receivables from Housing Company' mortgages notes in the amount of approximately $2.3 million were paid, reducing the outstanding balance receivable from $90.1 million at October 31, 2003 to $87.8 million at October 31, 2004; and approximately $1.3 million of funds related to the residential leases were returned to developers reducing the balance held by the Authority from $13.5 million at October 31, 2003 to $12.2 million at October 31, 2004.

At October 31, 2004, the Authority's investment in project assets, net of accumulated depreciation was approximately $350.0 million. The Battery Park City 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 7.5 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, public schools, and approximately 9,000 residential units. Each of these elements has been completed, except for approximately 2,200 residential units. Management also anticipates construction to begin on several projects, including approximately 1.8 million square feet of additional commercial space on Site 26 and two residential buildings. The Authority's project assets include land, site improvements, and a residential building (Site 22) constructed by the Authority. The balances at October 31, 2004 and 2003 are as follows:

	October 31 2004	October 31 2003	Increase (decrease)
Land	$ 83,015,653	83,015,653	—
Site improvements	278,250,147	261,912,816	16,337,331
Residential building	41,741,252	41,690,723	50,529
	403,007,052	386,619,192	16,387,860
Less accumulated depreciation	(53,001,153)	(46,299,082)	(6,702,071)
Total Battery Park City project assets	$ 350,005,899	340,320,110	9,685,789

For the fiscal year ended October 31, 2004, the increase to the Project assets over fiscal year 2003 is primarily a result of expenditures of approximately $16.3 million in site improvements, principally for new parks in the North and South Neighborhoods and the restoration of the plaza adjacent to the North Cove (see note 3).

The Authority's total liabilities decreased approximately $52.4 million, from a total of $1.424 billion at October 31, 2003 to $1.372 billion at October 31, 2004.

Current liabilities largely comprise amounts due to the City, the current portion of long-term debt and accrued interest, and accounts payable and accrued expenses. A decrease of approximately $50.3 million in current liabilities is due to the provision for amounts due to the City of $151.3 million for the fiscal year ended October 31, 2003 which was paid in June 2004, and the $101 million amount due at October 31, 2004. Additionally, as of October 31, 2004, accounts payable and accrued liabilities decreased approximately $15.8 million from $44.9 million at October 31, 2003 to $29.1 million at October 31, 2004 primarily due to nonrecurring expenses to the Internal Revenue Service (IRS) ($2 million) and for bond issuance costs ($8 million) accrued in the previous fiscal year ended October 31, 2003, as well as reduced amounts due to vendors and returned deposits due to developers (see note 16). On October 16, 2003, all interest on the refunded revenue bonds was provided for and considered paid in conjunction with the defeasance of refunded revenue bonds, and the unpaid interest of approximately $3.5 million on the 2003 Revenue Bonds was accrued as of October 31, 2003. At October 31, 2004, the accrued interest on the 2003 Revenue Bonds was approximately $19.8 million, an increase of $16.3 million (see note 12).

Noncurrent liabilities mainly comprise the Authority's long-term debt. On October 31 2004, the Authority has $1.067 billion of the 2003 Revenue Bonds outstanding, compared to $1.068 billion in 2003. The change was due to the amortization of the premium for the 2003 Series A Bonds. The Authority is amortizing the premium on a straight-line basis over the life of the Series A Bonds. Principal payments on these debt obligations begin November 2008. A portion of the Housing Revenue Bonds totaling $2,390,000 was amortized (paid), reducing the balance of bonds outstanding from $94.8 million at October 31, 2003 to $92.4 million at October 31, 2004.

The net assets (deficit) at October 31, 2004 and 2003 were ($309.1) million and ($312.8) million, respectively. Investment in capital assets, net of related debt was ($34.2) million at October 31, 2004. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Authority's $123.9 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Authority. These assets are generally restricted for debt service and capital projects. The resulting balance is classified as an unrestricted deficit totaling approximately ($398.8) million.

The overall change in total net assets from October 31, 2003 is an increase of approximately $3.7 million and indicates that the total asset position of the Authority has been marginally increased during the fiscal year ended October 31, 2004.

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

Below is a summary of the Authority's revenues, expenses, and changes in net assets (deficit) for the fiscal years ended October 31, 2004 and 2003:

	October 31 2004	October 31 2003	Increase (decrease)
Operating revenues:			
Revenues from ground leases:			
Base rent	$ 43,063,667	41,328,913	1,734,754
Supplemental rent	581,545	835,400	(253,855)
Payments in lieu of real estate taxes	120,267,912	114,207,983	6,059,929
Civic facilities payments and others	6,663,808	4,449,673	2,214,135
Total operating revenues	170,576,932	160,821,969	9,754,963
Operating expenses:			
Wages and related benefits	5,705,404	5,368,489	336,915
Other operating and administrative expenses	24,999,597	24,966,202	33,395
Depreciation and amortization	11,751,704	9,149,826	2,601,878
Total operating expenses	42,456,705	39,484,517	2,972,188
Operating income	128,120,227	121,337,452	6,782,775
Nonoperating revenues (expenses):			
Investment and other income	24,801,703	16,575,966	8,225,737
Interest expense (see note 2)	(48,278,368)	(49,312,732)	1,034,364
Defeasance payment to Housing New York Corporation	—	(221,681,685)	221,681,685
IRS arbitrage rebate	(3,137)	(1,508,486)	1,505,349
Transfer from Parks Conservancy	—	270,910	(270,910)
Provision for transfer to the City of New York	(100,965,880)	(151,302,767)	50,336,887
Total nonoperating expenses, net	(124,445,682)	(406,958,794)	282,513,112
Change in net assets	3,674,545	(285,621,342)	289,295,887
Beginning of year	(312,799,793)	(27,178,451)	(285,621,342)
End of year	$ (309,125,248)	(312,799,793)	3,674,545

A summary of revenues and expenses for the fiscal years ended October 31, 2004 and 2003 is as follows:

Operating Revenues – Overall revenues for the fiscal years ended October 31, 2004 and 2003 totaled $170.6 million and $160.8 million, respectively. Lease revenues consist primarily of base (land) rent and real estate taxes (PILOT) from long-term leaseholds. Base rent lease payments increased approximately $1.7 million. The primary reasons for the increased revenues in fiscal year 2004 was an increase in PILOT revenues of approximately $6 million or 5% (which account for approximately 70% of the Authority's operating revenues) as a result of additions in assessments and an increase in tax rates by the City, and an increase in scheduled leased payments.

Operating Expenses – Operating expenses totaled approximately $42.5 million and $39.5 million for the fiscal years ended October 31, 2004 and 2003, respectively. The expenses include: wages and related benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, planning/design, and promotional expenditures; and depreciation and amortization. The primary reason for the increase over fiscal year ended October 31, 2003 was increased depreciation and amortization expenses of approximately $2.6 million.

Nonoperating Revenues (Expenses) – Total (net) nonoperating expenses were $124.4 million and $407 million for the fiscal years ended October 31, 2004 and 2003, respectively. A provision for the transfer to the City of $101 million and $151.3 million in excess revenues was charged for the fiscal year ended October 31, 2004 and 2003, respectively. In addition, for fiscal year ended October 31, 2003, approximately $221.7 million was transferred to HNYC to provide for the payment of interest and principal in order to defease all outstanding 1993 HNYC Senior Bonds. There were no such transfers for the fiscal year ended October 31, 2004. Interest earnings primarily on funds and accounts established in accordance with the 2003 bond resolution accounted for increased earnings from $16.6 million for fiscal year ended October 31, 2003 to $24.8 million in fiscal year ended October 31, 2004. In addition, a full year of interest expense related to the Authority's 2003 outstanding bonds and related swap payments (see note 12) are included for fiscal year ended October 31, 2004.

Change in Net Assets – The total net assets (deficit) at October 31, 2004 and 2003 were ($309.1) million and ($312.8) million, respectively.

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Management's Discussion and Analysis
October 31, 2003 and 2002

Statement of Net Assets

The statement of net assets presents the financial position of the Authority at the end of the fiscal year. Net assets are the difference between total assets and total liabilities. A summarized comparison of the Authority's assets, liabilities, and net assets at October 31, 2003 and 2002 is as follows:

		October 31		Increase
		2003	**2002**	**(decrease)**
		(in 000s)		
Assets:				
Current assets	$	5,282	9,797	(4,515)
Bond resolution assets		444,509	279,029	165,480
Battery Park City project assets, net		340,320	331,375	8,945
Other noncurrent assets		321,136	181,642	139,494
Total assets	$	1,111,247	801,843	309,404
Liabilities:				
Current liabilities	$	224,241	137,588	86,653
Long-term liabilities		1,199,806	691,433	508,373
Total liabilities		1,424,047	829,021	595,026
Net assets (deficit):				
Invested in capital assets, net of related debt		(25,491)	4,979	(30,470)
Restricted		86,428	120,067	(33,639)
Unrestricted		(373,737)	(152,224)	(221,513)
Total net assets (deficit)		(312,800)	(27,178)	(285,622)
Total liabilities and net assets (deficit)	$	1,111,247	801,843	309,404

As of October 31, 2003, the Authority maintained total assets of over $1.1 billion. The Authority's restricted noncurrent assets are predominantly related to funds and accounts established in accordance with the bond resolutions totaling approximately $444.5 million, which is approximately $165.5 million higher than the investment value of assets held at October 31, 2002, totaling $279 million. In October 2003, substantially all the investments and cash assets held under the 1993, 1996, and 2000 resolutions (in conjunction with the defeasance of all outstanding revenue bonds held under those resolutions) were transferred to the required funding of debt service and related funds, accounts held under the 2003 Revenue Bond Resolutions. As of October 31, 2003, assets held under the 2003 Revenue Bond Resolutions include a debt service reserve and funds held for payment of debt service, bond issuance costs, interest expense, construction of site improvements, and excess revenues available to be applied by the Authority to any lawful corporate purposes (see note 9).

At October 31, 2003, the Authority's investment in project assets, net of accumulated depreciation was approximately $340.3 million. 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 7.5 million square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, public schools, and approximately 9,000 residential units. Each of these elements has been completed, except for approximately 2,200 residential units. Management also anticipates development of approximately 1.8 million square feet of additional commercial space on Site 26. The Authority's project assets include land, site improvements, and a residential building constructed by the Authority on Site 22. The balances at October 31, 2003 and 2002 are as follows:

		October 31		Increase
		2003	2002	(decrease)
		(in 000s)		
Land	$	83,016	83,016	—
Site improvements		261,913	246,135	15,778
Residential building		41,690	41,688	2
		386,619	370,839	15,780
Less accumulated depreciation		(46,299)	(39,464)	6,835
Total Battery Park City project assets	$	340,320	331,375	8,945

For the fiscal year ended October 31, 2003, the increase to the Project assets over fiscal year 2002 is primarily a result of expenditures of approximately $15.8 million in site improvements, principally for a new park in the North Neighborhood and restoration of the Esplanade infrastructure (see note 3).

Other noncurrent assets increased approximately $139.5 million from a total of $181.6 million in the fiscal year ended October 31, 2002 to $321.1 million in fiscal year ended October 31, 2003, primarily related to the issuance of the 2003 Revenue Bonds, in October 2003. The refundings resulted in the reacquisition costs exceeding the net carrying amount of the refunded debt, resulting in an accounting loss of approximately $39 million, which is classified as an asset and will be amortized over the remaining life of the defeased bonds. The (net unamortized) bond issuance costs totaling $12.1 million at October 31, 2002 were eliminated as part of the reacquisition costs of the refunded revenue bonds and as of October 31, 2003. Bond insurance and other issuance costs related to the 2003 Revenue Bonds of approximately $46 million were added to the deferred bond insurance costs. Assets "restricted by the 1993 Master Resolution" (the Special Fund, approximately $47.8 million) are no longer held under the resolution and were reclassified to corporate-designated and escrowed funds within the noncurrent assets (see notes 9 and 12).

The Authority's total liabilities increased approximately $595.0 million, from a total of $829.0 million at October 31, 2002 to $1.424 billion at October 31, 2003. Current liabilities are largely comprised of amounts due to the City, the current portion of long-term debt and accrued interest, and accounts payable and accrued expenses. The increase in current liabilities is largely due to the provision for amounts due to the City of $151.3 million for the fiscal year ended October 31, 2003 which is unpaid at October 31, 2003 and is $96.6 million more than the $54.7 million amount due at October 31, 2002. Additionally, as of October 31, 2003, accounts payable and accrued liabilities includes a liability of $4 million related to the aforementioned settlement of withheld rent by certain condominiums and accruals related to bond insurance related costs of approximately $8 million and for arbitrage rebate to the IRS for $2.1 million (see note 16). On October 16, 2003, all interest on the refunded revenue bonds was provided for and considered paid in conjunction with the defeasance of refunded revenue bonds, and the unpaid interest on the 2003 Revenue Bonds was accrued as of October 31, 2003 (see note 12).

Noncurrent liabilities mainly comprise the Authority's long-term debt. On October 16, 2003 the Authority issued $1.068 billion of 2003 Revenue Bonds. A portion of the bond proceeds defeases all the Authority's outstanding 1993, 1996, and 2000 Revenue Bonds, as well as the 1993 HNYC Senior Bonds, all of which are no longer a liability or debt obligation of the Authority at October 31, 2003. In addition, the 2003 Revenue Bonds included $115.1 million bonds issued to raise new funds for site development. This is the primary reason for a net increase of total bonds outstanding of $491.4 million from $671.8 million as of October 31, 2002 to $1.163 billion as of October 31, 2003.

The net assets (deficit) at October 31, 2003 and 2002 were $(312.8) million and $(27.2) million, respectively. Investment in capital assets, net of related debt was $(25.5) million at October 31, 2003. Although investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since capital assets cannot be used to liquidate these liabilities. The Authority's $86.4 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Authority. These assets are generally restricted for debt service and capital projects. The resulting balance is classified as an unrestricted deficit totaling approximately $(373.7) million.

The overall change in total net assets from October 31, 2002 is a decrease of approximately $285.6 million and indicates that the total asset position of the Authority has been reduced during the fiscal year ended October 31, 2003.

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

Below is a summary of the Authority's revenues, expenses, and changes in net assets (deficit) for the fiscal years ended October 31, 2003 and 2002:

		October 31 2003 (in 000s)	October 31 2002 (in 000s)	Increase (decrease)
Operating revenues:				
Revenues from ground leases:				
Base rent	$	41,329	40,137	1,192
Supplemental rent		835	1,045	(210)
Payments in lieu of real estate taxes		114,208	104,252	9,956
Civic facilities payments and others		4,450	2,874	1,576
Total operating revenues		160,822	148,308	12,514
Operating expenses:				
Wages and related benefits		5,368	5,510	(142)
Other operating and administrative expenses		24,967	19,291	5,676
Depreciation and amortization		9,150	6,636	2,514
Total operating expenses		39,485	31,437	8,048
Operating income		121,337	116,871	4,466
Nonoperating revenues (expenses):				
Investment and other income		16,576	21,233	(4,657)
Interest expense		(49,312)	(36,490)	(12,822)
Debt service payment to Housing New York Corporation		(221,682)	(19,665)	(202,017)
IRS arbitrage rebate		(1,508)	—	(1,508)
Transfer from Parks Conservancy		271	—	271
Provision for transfer to the City of New York		(151,303)	(57,392)	(93,911)
Total nonoperating expenses, net		(406,958)	(92,314)	(314,644)
Change in net assets		(285,621)	24,557	(310,178)
Beginning of year		(27,178)	(51,735)	24,557
End of year	$	(312,799)	(27,178)	(285,621)

A summary of revenues and expenses for the fiscal years ended October 31, 2003 and 2002 is as follows:

Operating Revenues – Overall revenues for fiscal year ended October 31, 2003 totaled $160.8 million, approximately $12.5 million higher than the $148.3 million for fiscal year ended October 31, 2002. Lease revenues consist primarily of base (land) rent and real estate taxes (PILOT) from long-term leaseholds. The primary reasons for the increased revenues in fiscal year 2003 was an increase in PILOT revenues of approximately $10 million or 9.5% (which account for approximately 70% of the Authority's operating

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revenues) as a result of additions in assessments and a significant increase in tax rates by the City, and an increase in scheduled leased payments.

Operating Expenses – Operating expenses totaled approximately $39.5 million for the fiscal year ended October 31, 2003, approximately $8.1 million more than fiscal year ended October 31, 2002. The expenses include: wages and related benefits; operating and administrative expenses such as security, insurance, rent, maintenance, transportation, legal, financial, planning/design, and promotional expenditures; and depreciation and amortization. A net (one time) charge for the fiscal year ended October 31, 2003 of approximately $5.6 million has also been included in other operating and administrative expenses related to the aforementioned settlement of rent withheld by certain condominiums and is the primary reason for the increase over fiscal year ended October 31, 2002 along with increased depreciation and amortization.

Nonoperating Revenues (Expenses) – Total (net) nonoperating expenses of $406.9 million for the fiscal year ended October 31, 2003 were approximately $314.6 million higher than the (net) nonoperating expenses of $92.3 million for fiscal year ended October 31, 2002. A provision for the transfer to the City of $151.3 million in excess revenues was charged for the fiscal year ended October 31, 2003, an increase of approximately $93.9 million from fiscal year ended October 31, 2002. In addition, approximately $236 million was transferred to HNYC to provide for the payment of interest and principal in order to defease all outstanding 1993 HNYC Senior Bonds, which was $216.4 million higher than the previous fiscal year ended October 31, 2002 transfer for debt service. Interest earnings primarily on funds and accounts established in accordance with the bond resolutions and interest expense related to outstanding bonds, as well as a charge in fiscal year ended October 31, 2003 for an arbitrage payment to the IRS, are included.

Change in Net Assets – The total net assets (deficit) at October 31, 2003 were ($312.8) million or a decrease of approximately $285.6 million over the fiscal year ended October 31, 2002 as a result of the changes in revenues and expenses noted above.

Other Information

Debt Administration – At October 31, 2004, the Authority was responsible for debt service on $1.068 billion of the 2003 Revenue Bonds issued in October 2003. Bond proceeds were used to provide for the payments of all principal and interest on the 1993 Revenue Refunding Bonds, the Junior Revenue Bonds, Series 1996A, Series 2000, and the 1993 HNYC Senior Bonds. As a result thereof, such bonds were defeased and are no longer a liability of the Authority. The 2003 Revenue Bonds include: $433 million (including premium) of senior lien obligations (2003 Senior A Bonds) rated Aaa, AAA, and AAA by Moody's Investor Service, Inc. (Moody's), Fitch, and Standard & Poor's, respectively; and $635 million of junior lien debt obligations (the 2003 Series B Bonds and the 2003 Series C Bonds), which are insured and, therefore, are also rated Aaa, AAA, and AAA by Moody's, Fitch, and Standard & Poor's, respectively, and also carry underlying ratings of Aa3, AA, and AA, respectively. The Authority also has Housing Revenue Bonds (HRBs) outstanding totaling approximately $92.4 million as of October 31, 2004, which are also insured.

Impact of World Trade Center Attack – Given its proximity, the terrorist attack of September 11, 2001 (the Attack) on the World Trade Center caused damage to property and disruptions of utility, transportation, and other services in Battery Park City. Development of four buildings was delayed as a result of the attack; however, one hotel project was completed in early 2002 and a residential site in the North Neighborhood substantially completed construction in June 2003. Construction on two residential buildings began in the Spring of 2004, and two other residential projects (870 units) as well as a 1.8 million square foot commercial tower are expected to begin in the Spring of 2005. Management believes that substantially all costs incurred related to the remediation of damages will be collected from the Authority's insurance carriers or Federal and State relief programs.

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

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

Balance Sheets

October 31, 2004 and 2003

Assets		**2004**	**2003**
Current assets:			
Cash and cash equivalents (note 3)	$	850,287	995,759
Restricted assets:			
Interest on mortgage notes, rents, and other receivables (net of allowance for doubtful accounts of $168,959 in 2004 and $152,773 in 2003) (note 15)		2,417,153	2,299,090
Receivable from Housing Company under Federal Housing Administration-insured mortgage notes (notes 6 and 13)		2,226,130	1,986,917
Total current assets		5,493,570	5,281,766
Noncurrent assets:			
Restricted assets:			
Funds and accounts established in accordance with bond resolutions (notes 3, 9, 11, 12, and 13):			
Housing Revenue Bonds		15,075,037	14,604,810
2003 Revenue Bonds		355,653,550	429,904,354
Total funds and accounts established in accordance with bond resolutions		370,728,587	444,509,164
Receivables from Housing Company under Federal Housing Administration-insured mortgage notes (notes 6 and 13)		87,883,399	90,186,118
Residential lease required funds (note 3)		12,218,581	13,534,147
Corporate-designated and escrowed funds (note 3)		143,607,408	120,808,202
Deferred costs (note 3):			
Bond issuance costs, less accumulated amortization of $5,610,945 in 2004 and $4,944,113 in 2003		44,541,653	45,995,408
Costs of leases, less accumulated amortization of $641,180 in 2004 and $597,880 in 2003		2,324,301	2,858,786
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds		37,175,928	38,952,294
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, and 4)		350,005,899	340,320,110
Other assets		8,568,664	8,800,928
Total noncurrent assets		1,057,054,420	1,105,965,157
Total assets	$	1,062,547,990	1,111,246,923

(Continued)

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

Balance Sheets

October 31, 2004 and 2003

Liabilities and Net Assets (Deficit)	**2004**	**2003**
Current liabilities:		
Accrued interest on bonds	$ 19,771,335	3,513,288
Accounts payable and other liabilities (note 16)	29,112,023	44,877,966
Due to the City of New York (note 14)	100,965,880	151,302,767
Revenue received in advance	20,840,366	21,106,763
Bonds outstanding (notes 10, 11, 12, and 13):		
Housing Revenue Bonds	2,535,000	3,440,000
Total current liabilities	173,224,604	224,240,784
Noncurrent liabilities:		
Revenue received in advance (note 3)	41,313,639	40,104,960
Bonds outstanding (notes 10, 11, 12, and 13):		
Housing Revenue Bonds	89,870,000	91,355,000
2003 Revenue Bonds, less accumulated amortization of $1,080,977 in 2004	1,067,264,995	1,068,345,972
Total noncurrent liabilities	1,198,448,634	1,199,805,932
Total liabilities	1,371,673,238	1,424,046,716
Net assets (deficit) (note 3):		
Invested in capital assets, net of related debt	(34,192,482)	(45,280,865)
Restricted:		
Debt service	60,098,229	87,465,817
Capital projects	63,794,988	(1,038,115)
Unrestricted deficit	(398,825,983)	(353,946,630)
Total net assets (deficit)	(309,125,248)	(312,799,793)
Total liabilities and net assets (deficit)	$ 1,062,547,990	1,111,246,923

See accompanying notes to 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 Assets (Deficit)

Years ended October 31, 2004 and 2003

	2004	2003
Operating revenues:		
Revenues from ground leases (notes 5, 6, 7, and 8):		
Base rent	$ 43,063,667	41,328,913
Supplemental rent	581,545	835,400
Payments in lieu of real estate taxes	120,267,912	114,207,983
Civic facilities payments and other	6,663,808	4,449,673
Total operating revenues	170,576,932	160,821,969
Operating expenses:		
Wages and related benefits	5,705,404	5,368,489
Other operating and administrative expenses (note 18(e))	24,999,597	24,966,202
Depreciation of project assets	6,702,071	7,135,979
Other depreciation and amortization	5,049,633	2,013,847
Total operating expenses	42,456,705	39,484,517
Operating income	128,120,227	121,337,452
Nonoperating revenues (expenses):		
Investment income on funds relating to:		
Housing Revenue Bonds	497,365	497,903
1993 Master Revenue Resolution	—	792,558
1993 Revenue Refunding Bonds	—	896,923
1996 Junior Revenue Bonds	—	332,509
2000 Junior Revenue Bonds	—	196,867
2003 Revenue Bonds	7,158,703	1,532,456
Corporate-designated and escrowed funds and other	2,680,931	2,603,397
Net increase in the fair value of investments	7,209,419	2,324,506
Interest income on receivable from Housing Company	7,255,285	7,398,847
Interest expense relating to:		
Housing Revenue Bonds	(6,352,842)	(6,500,207)
1993 Revenue Refunding Bonds	—	(23,082,423)
1996 Junior Revenue Bonds	—	(3,979,867)
2000 Junior Revenue Bonds	—	(480,464)
2003 Revenue Bonds	(41,925,526)	(922,372)
Debt service on Housing New York Corporation (HNYC) indebtedness (note 10)	—	(14,347,399)
Transfer for defeasance of HNYC 1993 Senior Bonds (note 10)	—	(221,681,685)
Fixed assets transferred from Parks Conservancy	—	270,910
IRS arbitrage rebate expense	(3,137)	(1,508,486)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 14)	(100,965,880)	(151,302,767)
Total nonoperating revenues (expenses)	(124,445,682)	(406,958,794)
Change in net assets	3,674,545	(285,621,342)
Net assets (deficit), beginning of year	(312,799,793)	(27,178,451)
Net assets (deficit), end of year	$ (309,125,248)	(312,799,793)

See accompanying notes to 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, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	$ 168,408,290	171,032,821
Miscellaneous receipts	367,285	683,392
Total cash receipts from operating activities	168,775,575	171,716,213
Cash payments for:		
Salaries and benefits	(5,787,706)	(5,462,272)
Services and supplies	(24,635,770)	(19,028,337)
Total cash payments from operating activities	(30,423,476)	(24,490,609)
Net cash provided by operating activities	138,352,099	147,225,604
Cash flows from noncapital financing activities:		
Debt service on Housing New York Corporation (HNYC) indebtedness	—	(14,347,399)
Assets transferred from HNYC	—	39,581,097
Payment for defeasance of HNYC 1993 Senior Bonds	—	(221,681,685)
Payment to New York City	(151,302,767)	(54,697,000)
Net project remediation expenditures	—	(324,481)
Net cash used in noncapital financing activities	(151,302,767)	(251,469,468)
Cash flows from capital and related financing activities:		
Proceeds from issuance of 2003 Revenue Refunding Bonds, net	—	1,068,345,972
Defeasance of 1993, 1996, and 2000 Revenue Bonds	—	(638,472,484)
Bond issuance costs for the 2003 Revenue Refunding Bonds	—	(36,911,007)
Principal payments on Housing Revenue Bonds	(2,390,000)	(2,255,000)
Interest paid on Housing Revenue Bonds	(6,396,313)	(6,555,416)
Development costs – site improvements and construction	(16,387,860)	(16,081,328)
Principal payments on 1993 Revenue Refunding Bonds	—	(21,450,000)
Interest paid on 1993 Revenue Refunding Bonds	—	(23,846,398)
Principal payments on 1996 Junior Revenue Bonds	—	(1,340,000)
Interest paid on 1996 Junior Revenue Bonds	—	(4,083,925)
Principal payments on 2000 Revenue Bonds	—	(925,000)
Interest paid on 2000 Junior Revenue Bonds	—	(493,589)
Auction fees paid for variable debt	(1,624,027)	—
Swap payment made on the 2003 swap agreement	(7,479,333)	—
Swap interest payments received	3,089,026	—
Interest paid on 2003 Junior Revenue Bonds	(6,861,322)	(95,047)
Interest paid on 2003 Senior Revenue Bonds	(20,683,124)	—
Net cash (used in) provided by capital and related financing activities	(58,732,953)	315,836,778
Cash flows from investing activities:		
Mortgage principal repayments from Housing Company	2,063,506	1,913,183
Interest received on receivable from Housing Company	7,260,606	7,386,766
Interest received on investment securities	11,075,545	7,639,200
Redemption and sale of investment securities	782,021,425	2,043,683,277
Purchase of investment securities	(730,882,933)	(2,271,223,089)
Net cash provided by (used in) investing activities	71,538,149	(210,600,663)
(Decrease) increase in cash and cash equivalents	(145,472)	992,251
Cash and cash equivalents, beginning of year	995,759	3,508
Cash and cash equivalents, end of year	$ 850,287	995,759
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 128,120,227	121,337,452
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	11,751,704	9,149,826
Changes in operating assets and liabilities:		
Decrease in rents and other receivables	1,481,349	5,573,357
Increase in other assets	(941,954)	(1,215,636)
(Decrease) increase in accounts payable and other liabilities	(3,001,509)	10,003,449
Increase in revenue received in advance	942,282	2,377,156
Net cash provided by operating activities	$ 138,352,099	147,225,604

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

The Act sets forth the purposes of the Authority, including: the improvement of the Battery Park City project area; the creation in such area, in cooperation with the City of New York (the City) and the private sector, of a mixed commercial and residential community; and the making of loans secured by first mortgages to any housing company organized to provide housing within the project area pursuant to the New York State Private Housing Finance Law. The Act also authorizes the Authority to pledge and assign revenues to secure financing for low- and moderate-income housing developments outside the project area, as well as issue bonds for the purposes of furthering the development of a commodities and futures exchange facility in Battery Park City, repaying certain State appropriations, and making a payment to the City (see notes 10 and 11).

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

(2) Status of Project

The Battery Park City project (the Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority (see note 4). The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction by private developers of approximately 7,500,000 square feet of office space, a 500,000-square-foot commodities trading facility, retail space, a marina, two hotels, a multiplex cinema, museums, public schools, and approximately 9,000 residential units (see notes 5, 6, and 7). Each of these elements has been completed, except for approximately 2,200 residential units. In addition, the Authority anticipates development of approximately 1.8 million square feet of additional commercial space on Site 26. In addition to undeveloped parcels, the Authority also owns and controls significant air rights throughout the Project. Ground rents, payments in lieu of real estate taxes (PILOT), and other lease payments are received under ground leases, all expiring in 2069. At October 31, 2004, two residential projects totaling 570 units are under construction and two other residential projects and the large commercial building of 1.8 million square feet are expected to begin construction in 2005.

(3) Summary of Significant Accounting Policies

(a) Financial Reporting

The Authority's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, provides proprietary activities with the option of implementing the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with GASB pronouncements. The Authority has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

Effective November 1, 2000, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The impact of implementing the provisions of these GASB Statements included a change in the presentation of the statement of cash flows to the direct method, the inclusion of management's discussion and analysis as required supplementary information, changes in the classifications of net assets and other classifications within the basic financial statements, and modifications to certain notes to the financial statements.

(b) Use of Estimates

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

(c) Project Assets

Costs incurred by the Authority in developing the Project as of October 31, 2004 and 2003 are capitalized as project assets and classified as follows:

	Balance at October 31, 2003	Additions	Deletions	Balance at October 31, 2004
Land	$ 83,015,653	—	—	83,015,653
Site improvements	261,912,816	16,337,331	—	278,250,147
Residential building	41,690,723	50,529	—	41,741,252
Total project assets	386,619,192	16,387,860	—	403,007,052
Less accumulated depreciation:				
Site improvements	42,129,956	5,868,351	—	47,998,307
Residential building	4,169,126	833,720	—	5,002,846
Total accumulated depreciation	46,299,082	6,702,071	—	53,001,153
Net project assets	$ 340,320,110	9,685,789	—	350,005,899

	Balance at October 31, 2002	Additions	Deletions	Balance at October 31, 2003
Land	$ 83,015,653	—	—	83,015,653
Site improvements	246,134,829	15,777,987	—	261,912,816
Residential building	41,688,363	2,360	—	41,690,723
Total project assets	370,838,845	15,780,347	—	386,619,192
Less accumulated depreciation:				
Site improvements	36,128,678	6,001,278	—	42,129,956
Residential building	3,335,406	833,720	—	4,169,126
Total accumulated depreciation	39,464,084	6,834,998	—	46,299,082
Net project assets	$ 331,374,761	8,945,349	—	340,320,110

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 and civic and public facilities, are being depreciated by the straight-line method over the lesser of remaining lease years or estimated useful lives of 50 years, respectively. The residential building is being depreciated by the straight-line method over its estimated useful life of 50 years. Interest costs, net of investment income, incurred during construction related to cost of infrastructure and facilities for phases being developed, are capitalized until such phases are substantially completed and ready for construction of buildings.

(d) Revenue from Ground Leases

Revenue from ground leases is recognized as income as such amounts become receivable under the provisions of leases, except that PILOT payments received in advance of the period to which they apply are deferred and recognized as income during such period. Upon execution of the lease related to the Site 22 residential building, the Authority received an upfront lease payment of approximately $42 million. The Authority is recognizing revenue for this payment on a straight-line basis over the life of the lease. Amounts not recognized are reported as deferred revenue in noncurrent liabilities. Given the nature of the Authority's operations, revenue from ground leases is considered operating revenue. All other revenues are considered nonoperating.

(e) Investments and Deposits

The Authority carries all investments at fair value based on quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the exception of U.S. Treasury obligations with a remaining maturity at time of purchase of one year or less, which are reported at amortized cost, which approximates fair value. The Authority's investments in securities backed by the full faith and credit of the U.S. Government or municipal issuances of a credit quality no lower than 'A' grade are held by the Authority's financial institutions in the Authority's name. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks.

Total investments and deposits held by the Authority at October 31, 2004 and 2003 included within the balance sheet accounts: corporate-designated and escrowed funds, funds and accounts established in accordance with bond resolutions (see note 9), and residential lease required funds are as follows:

	2004		2003	
	Cost	**Fair value**	**Cost**	**Fair value**
U.S. Treasury bills	$ 162,508,103	162,508,103	282,706,484	282,706,484
Municipal issuances	180,786,370	180,786,370	—	—
U.S. Treasury strips	1,753,024	2,461,216	11,411,910	11,917,107
U.S. Treasury notes/bonds	104,681,460	108,109,072	56,442,814	59,904,317
GNMAs	61,573,073	61,573,073	19,945,896	19,945,896
Total investments	511,302,030	515,437,834	370,507,104	374,473,804
Cash and cash equivalents	11,116,742	11,116,742	204,377,709	204,377,709
Total investments and deposits	$ 522,418,772	526,554,576	574,884,813	578,851,513

Corporate-designated and escrowed funds represent funds designated by the Authority's board of directors for specific purposes such as budget reserves, the special fund, project contingency reserves, insurance reserves, and arbitrage reserves. Residential lease required funds represent funds held by the Authority in accordance with its residential leases. These funds are largely composed of security and escrow deposits held by the Authority for the residential buildings.

(f) Net Assets

The Authority's net assets are classified in the following categories: invested in capital assets, net of related debt, consisting of project assets, net of accumulated deprecation and reduced by the outstanding balance of debt attributable to the acquisition, construction, or improvement of those assets; restricted net assets, consisting of net assets restricted for specific purposes by law or parties external to the Authority; and unrestricted net assets, consisting of net assets that are not classified as investment in capital assets, net of related debt or restricted. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

(g) Deferred Costs

Bond issuance costs are amortized over the remaining period to maturity of the bonds 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 statement of cash flows, the Authority considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Authority has elected to treat cash equivalents held under the various bond resolutions as investments.

(i) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year 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 well as indebtedness incurred by the Housing New York Corporation (HNYC), for which certain of the Authority's revenues have been pledged (see notes 10 and 11). As of October 31, 2004, 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. 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, 2004, the leases, which expire in 2069, provide for future base rent payments aggregating approximately $1.22 billion over the lease terms in the following annual amounts: (i) base rent of $15,000,000 increasing to $17,000,000 per annum from 2001 through 2069 and (ii) additional base rent of $5,561,220 payable by the BFP-affiliated lessees (2001 to 2014), which under certain circumstances increases to a maximum of $7,248,906 payable over a reduced period (2001 to 2009), plus $3,106,674 payable by American Express (2000 to 2009) (see note 8). In addition, the leases provide for rent relating to retail and other space and, with respect to each building, percentage rent based on cash flow, as defined, which commenced in 1997 and continues to 2016.

Annual PILOT is also required to be paid to the Authority based on the assessed value of each building and the tax rate then applicable to real property located in the borough of Manhattan, unless alternative PILOT arrangements are set forth in the ground lease.

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

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

In 1998, a lease was signed for the development of a 463-room luxury hotel and cinema complex of approximately 600,000 square feet to the north of the World Financial Center on Site 25. The Site 25 ground lease provides for an abatement program for the hotel and cinema complex. In addition, in 2000, a lease was signed for the development of a 298-room hotel and 114 residential condominium units at the southern end of Battery Park City. The hotel was opened in early 2002 and the lease provides for the payment of full PILOT.

(6) Gateway Project

In 1980, the Authority entered into a lease with a limited-profit housing company (the Housing Company), which has constructed an apartment complex consisting of 1,712 rental apartment units (the Gateway Project). The lease, as amended, expires in 2040 and may be extended at the option of the Housing Company through 2069. Permanent financing has been provided by the Authority from the proceeds of Housing Revenue Bonds (HRBs) (see note 13).

As of October 31, 2004, loans receivable from the Housing Company amount to $90,109,529, of which $7,328,416 is under a 1982 mortgage note, $9,753,046 is under a 1984 mortgage note, and $73,028,067 is under a 1993 mortgage note. Proceeds from the issuance of $90,185,000 of 1993 Housing Revenue Bonds (the 1993 HRBs) were used by the Authority to finance the 1993 loan (see note 13). In October 1993, the Housing Company prepaid a 1980 mortgage note with an outstanding balance of $84,007,381.

The notes are collateralized by separate nonrecourse mortgages (coordinate in lien) from the Housing Company and a limited partnership, of which the Housing Company is a general partner. On October 31, 2003, $5,390,000 of the 1980 Housing Revenue Bonds (the 1980 HRBs) outstanding is considered defeased. In addition, pursuant to an agreement with the Authority dated November 16, 1999, the trustee for the 1980 HRBs established a trust fund, held in custody separate and apart from other funds of the Authority or the trustee, and deposited therein an amount of its funds calculated to be sufficient, when invested in U.S. Treasury obligations as provided in the agreement, to pay interest on $9 million of additional 1980 HRBs outstanding and to redeem them at their earliest call date in June 2005. The liability for the defeased 1980 HRBs, as well as the related trust assets held in escrow, are not included in the Authority's financial statements.

Repayment of loans under the mortgage notes is insured by the Federal Housing Administration (FHA). Interest at annual rates of 13.375%, 10.5%, and 7.08% is payable on the 1982, 1984, and 1993 mortgage notes, respectively. The mortgage notes provide for monthly payments of principal and interest aggregating $9,324,112 per year on all notes, which are to continue until maturity in 2023. The notes include prepayment provisions.

Under the terms of the lease, as amended, the Housing Company has agreed to pay: (i) a net annual rent of $305,440 in 1998 and thereafter, subject to renegotiation upon repayment of the mortgage notes (see note 8); (ii) an annual amount in lieu of real estate taxes; and (iii) amounts for the operation and maintenance of the civic facilities.

(7) Residential and Other Development

In addition to the Gateway Project, the Authority entered into leases in the residential area south of Liberty Street (the South Residential Neighborhood) pursuant to which developers constructed 15 buildings consisting of approximately 3,370 condominium and rental units, including 114 units in a mixed-use building containing a museum and the Ritz-Carlton Hotel. In the residential area north of the World Financial Center (the North Residential Neighborhood), 6 buildings consisting of approximately 1,723 units have been constructed. All the leases expire in 2069.

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

Annual PILOT is also required to be paid to the Authority during the term of these leases. PILOT is a lease payment by the tenants of each lease to the Authority in lieu of paying real property taxes to the City. PILOT is based on the assessed value of the premises as established by the City and the tax rate then applicable to similar classes of real property located in the borough of Manhattan. Many leases provide for an abatement equivalent to the real estate tax abatements provided for in the State's Real Property Tax Law, and are either 10 or 20 years in duration. Abatements for the South Residential Neighborhood leases executed prior to 1987 phased out during the fiscal year ended 1997, abatements for the leases executed after 1986 for that neighborhood ended in fiscal year 2003 and will end in 2020 for two recent developments, and abatements for the North Residential Neighborhood will end in 2020 or thereafter.

Certain residential leases also provide for supplemental rental payments, generally through the first appraisal date, which are to be paid if the PILOT payments are less than the minimum specified in each lease (see note 8).

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

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

In 1994, a lease was entered into with a not-for-profit institution, which constructed and operates the Museum of Jewish History (the Museum). The Museum pays to the Authority a rental based upon a portion of voluntary admission fees to the extent they are in excess of payments due for the operation and maintenance of civic facilities. Under the lease, the Authority agreed to contribute from funds available for infrastructure development an amount not to exceed $10,000,000 toward construction of the building. The Authority has completed its commitment to the Museum. This lease was subsequently amended to add the site adjacent to the Museum for nominal rent. At its sole expense, the Museum has constructed on this adjacent site an annex to the Museum.

(8) Future Minimum Lease Revenue

The future minimum base rent and other minimum lease payments (including supplemental rent, as applicable, through the first appraisal date– see note 7) to be received under the ground leases during each of the Authority's five fiscal years ending from October 31, 2005 through 2009 and thereafter are as follows:

	2005	2006	2007	2008 (In thousands)	2009	Thereafter	Total	
Commercial development:								
Base rent	$ 27,533	27,545	27,556	27,566	27,062	1,213,974	1,351,236	
Residential developments:								
POD III Project base rent	305	305	305	305	305	10,893	12,418	(a)
S. Res. neighborhood:								
Base rent	11,227	11,518	11,738	11,895	12,823	1,432,898	1,492,099	
Other minimum payments	12,989	13,020	13,048	13,084	12,392	92,664	157,197	
Subtotal S. Res.	24,216	24,538	24,786	24,979	25,215	1,525,562	1,649,296	
N. Res. neighborhood:								
Base rent	3,425	3,551	3,591	3,634	3,678	419,440	437,319	
Other minimum payments	1,165	1,165	1,165	1,165	1,165	27,843	33,668	
Subtotal N. Res.	4,590	4,716	4,756	4,799	4,843	447,283	470,987	
Total	$ 56,644	57,104	57,403	57,649	57,425	3,197,712	3,483,937	

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

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

(9) Funds and Accounts Established in Accordance with Hugh L. Carey Battery Park City Authority Bond Resolutions

The balances in the funds and accounts established in accordance with the Authority's bond resolutions and held by trustees are as follows at October 31, 2004:

	1982, 1984, and 1993 Housing Revenue Bond Resolutions	2003 Revenue Bonds			
		2003 Revenue Bonds	2003 Senior Bonds	2003 Junior Bonds	Total 2003 Bonds
Revenue Accounts	$ 4,810,935	—	—	—	—
Debt Service Reserve Funds	7,855,916	—	—	—	—
Debt Service Funds	—	—	41,874,582	41,895,035	83,769,617
Reserve Funds	—	70,021,482	—	—	70,021,482
Project Costs	—	89,704,462	—	—	89,704,462
Project Operating Fund	—	9,498,009	—	—	9,498,009
Residual Fund	—	100,940,019	—	—	100,940,019
Costs of Issuance Fund	—	151,803	—	—	151,803
Pledged Revenue Fund	—	1,450,307	—	—	1,450,307
Other	2,408,186	117,851	—	—	117,851
	$ 15,075,037	271,883,933	41,874,582	41,895,035	355,653,550

The balances in the funds and accounts established in accordance with the Authority's bond resolutions and held by trustees were as follows at October 31, 2003:

	1982, 1984, and 1993 Housing Revenue Bond Resolutions	2003 Revenue Bonds			
		2003 Revenue Bonds	2003 Senior Bonds	2003 Junior Bonds	Total 2003 Bonds
Revenue Accounts	$ 4,259,655	—	—	—	—
Debt Service Reserve Funds	7,961,925	—	—	—	—
Debt Service Funds	—	—	48,064,220	52,305,007	100,369,227
Reserve Funds	—	67,307,690	—	—	67,307,690
Project Costs	—	90,417,142	—	—	90,417,142
Project Operating Fund	—	6,596,789	—	—	6,596,789
Residual Fund	—	154,832,771	—	—	154,832,771
Costs of Issuance Fund	—	9,467,814	—	—	9,467,814
Pledged Revenue Fund	—	912,921	—	—	912,921
Other	2,383,230	—	—	—	—
	$ 14,604,810	329,535,127	48,064,220	52,305,007	429,904,354

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

Investments of amounts in funds and accounts established under the various bond resolutions are presently restricted to obligations of the State, U.S. Government and its agencies, or in any other obligations in which the Comptroller of the State of New York is authorized to invest pursuant to Section 98 of the State Finance Law (see note 18(d)).

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

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

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

Amounts in the Project Operating Fund established under the 2003 General Bond Resolution are not pledged to pay debt service and may be used by the Authority for and on certain additional indebtedness, which may be issued by the Authority for the funding of maintenance, repair, and restoration of the public open areas and civic facilities, and administrative and other expenditures, as defined.

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

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

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

The Act, as amended, authorizes the Authority to issue bonds and notes in amounts not to exceed: (a) $300 million outstanding at any one time for the development of the Project; (b) another $150 million for the purpose of financing capital costs in connection with development of the Project area, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; (c) $400 million outstanding at any one time for the making of loans to housing companies organized to provide housing within the Project area pursuant to the New York State Private Housing Finance Law; (d) $100 million for the purpose of repaying State appropriations including accrued interest thereon and funding the infrastructure of the Project, plus a principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness; and (e) $150 million for the purpose of making a payment to the City plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. Such authorized amounts exclude bonds and notes issued to refund outstanding bonds and notes (see note 11).

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

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

The Act, as amended, also authorizes the Authority to issue bonds for the purpose of furthering the development of a commodities and futures exchange facility in Battery Park City in an amount not to exceed $110 million, plus the principal amount of bonds and notes issued to fund any related debt service reserve fund and to provide a portion of interest on and costs of issuance related to such indebtedness. As of October 31, 2004, no bonds have been issued for this purpose.

The Act, as amended, authorizes the Authority to enter into interest rate exchange agreements through December 31, 2003, in connection with the issuance of Authority debt or in connection with Authority debt already outstanding, to provide for an exchange of payments based upon fixed and/or variable interest rates. In October 2003, the Authority entered into $400 million of interest rate exchange agreements (see note 12).

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

(11) Refunded Revenue Bonds

On October 16, 2003, all revenue bonds outstanding at that time (including the 1993 Revenue Refunding Bonds, Series 1993A; Junior Revenue Bonds, Series 1996A; and Junior Revenue Bonds, Series 2000) were refunded using bond proceeds from the 2003 Revenue Bonds. In addition, bond proceeds were used to provide for the payment of principal and interest and defeasance of all outstanding 1993 HNYC Senior Bonds (see note 12). As of October 31, 2004, the liability for all defeased (refunded) revenue bonds is not included in the Authority's financial statements and no longer represents a liability or debt obligation of the Authority.

1993 Revenue Bonds – In December 1993, the Authority issued $462,065,000 of Revenue Refunding Bonds, Series 1993A (the 1993 Series A Bonds) to advance refund $175,995,000 of outstanding 1986 Special Obligation Revenue Bonds and $222,660,000 of outstanding 1990 Revenue Bonds. The Authority also issued $140,020,000 of Junior Revenue Refunding Bonds, Series 1993B (the 1993 Series B Bonds) to currently refund $162,900,000 of outstanding 1972 Series A Bonds. In September 1987, HNYC issued $209,995,000 of Revenue Bonds (the HNYC Bonds), which were principally secured by certain pledged revenue of the Authority. In December 1993, in conjunction with the Authority's refunding of its bonds, HNYC issued $258,690,000 of Senior Revenue Refunding Bonds (the 1993 HNYC Senior Bonds) for the purpose of refunding the HNYC Bonds. In November 2000, the final special mandatory payment was made and the 1993 Junior B Bonds were retired and are no longer outstanding. On October 16, 2003, all remaining 1993 Series A Bonds, totaling $439,465,000, and the 1993 HNYC Senior Bonds, totaling $250,390,000, were retired and are no longer outstanding.

1996 Revenue Bonds – In 1996, the Authority issued $79,420,000 Junior Revenue Bonds, Series 1996A for the purposes of financing the construction of a residential building and costs for certain infrastructure and other capital expenditures. On October 16, 2003, all remaining $74,385,000 of the Series 1996A Bonds outstanding were advance refunded and defeased.

2000 Revenue Bonds – On March 7, 2000, the Authority issued $55,725,000 of Junior Revenue Bonds, Series 2000 to finance costs and certain infrastructure and other capital expenditures in Battery Park City. The 2000 Junior Revenue Bonds were issued as auction rate securities. On October 16, 2003, all 2000 Junior Revenue Bonds outstanding totaling $53,075,000 were retired.

(12) 2003 Revenue Bonds

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

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

In conjunction with the refunding of all of the outstanding revenue bonds, the Authority issued $292,537,963 of bonds (including $90,328,477 of the 2003 Series A Bonds, $68,968,136 of the 2003 Series B Bonds, and $133,241,350 of the 2003 Series C Bonds) to current refund $250,390,000 of outstanding 1993 HNYC Senior Bonds (see note 10).

Funds aggregating $860,037,332, representing the net proceeds of the bond issues after payment of underwriting fees and other issuance cost and deposits to debt service reserve and other funds and accounts held under the various resolutions for the refund bonds, were used to purchase U.S. Government securities. Those securities were deposited in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded revenue bonds and the escrow agents were directed to redeem the bonds (all outstanding 1993, 1996, and 2000 Authority revenue bonds and the 1993 HNYC Senior Bonds). The liability for the defeased bonds, as well as the related trust assets, are not included in the Authority's financial statements and no longer represent a liability or debt obligation of the Authority. In addition, approximately $90,381,000 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. In December 1993, the GASB issued Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. For current and advance refundings resulting in defeasance of debt reported by entities such as the Authority, GASB No. 23 required, effective for financial statements issued for periods beginning after June 15, 1994, that the difference between the reacquisition price and the net carrying amount of the refunded debt be deferred and amortized as a component of interest expense, in a systematic and rational manner, over the remaining life of the old debt or the life of the new debt, whichever is shorter. The difference between the reacquisition price and the net carrying amount of the refunded debt was reflected on the Authority's balance sheet with a pro rata charge to interest expense for the year ended October 31, 2004.

The 2003 Series A Bonds consist of the following serial bonds:

Maturity dates	Coupon rates	Principal amounts	Interest
2005		$ —	19,855,799
2006		—	19,855,799
2007		—	19,855,799
2008	2.10%	14,570,000	19,855,799
2009	2.38 – 5.50	12,980,000	19,549,829
2010 – 2014	2.40 – 5.00	76,530,000	89,028,866
2015 – 2019	3.63 – 5.25	103,310,000	67,122,819
2020 – 2024	4.13 – 5.00	134,935,000	38,552,538
2025 – 2026	4.63 – 5.00	64,025,000	4,828,124
		$ 406,350,000	298,505,372

The Authority issued certain of the 2003 Series A Bonds at a discount and others at a premium, resulting overall in a net premium of approximately $27 million, which will be amortized using the straight-line method, over the life of the 2003 Series A Bonds. At October 31, 2004 and 2003, the unamortized net bond premium was approximately $26 million and $27 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 in each case interest to the redemption date.

The 2003 Junior Revenue Bonds were issued as auction rate securities and the principal and interest on the 2003 Junior Revenue Bonds are insured by municipal bond insurance policies. Interest rates on these bonds are reset periodically through an auction process in the secondary market. The 2003 B Junior Bonds reset on a seven-day auction cycle and the 2003 C Junior Bonds reset on a 35-day auction cycle.

Principal and interest payments due on the 2003 B Junior Bonds and the 2003 C Junior Bonds are as follows:

		Junior B		Junior C		Total	
Fiscal year		**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2005	$	—	3,301,222	—	6,187,257	—	9,488,479
2006		—	3,301,222	—	6,187,257	—	9,488,479
2007		—	3,301,222	—	6,187,257	—	9,488,479
2008		—	3,301,222	3,375,000	6,133,967	3,375,000	9,435,189
2009		—	3,301,222	5,450,000	6,047,893	5,450,000	9,349,115
2010 – 2014		—	16,506,111	27,250,000	28,948,558	27,250,000	45,454,669
2015 – 2019		—	16,506,111	27,300,000	26,796,201	27,300,000	43,302,312
2020 – 2024		—	16,506,111	30,825,000	24,506,860	30,825,000	41,012,971
2025 – 2029		—	16,506,111	144,225,000	18,442,593	144,225,000	34,948,704
2030 – 2034		35,925,000	15,993,002	161,575,000	3,136,825	197,500,000	19,129,827
2035 – 2039		199,075,000	5,812,605	—	—	199,075,000	5,812,605
Total	$	235,000,000	104,336,161	400,000,000	132,574,668	635,000,000	236,910,829

Interest in the above table is based on the interest rates in place at October 31, 2004, which were 1.4%, 1.4%, and 1.36% for the 2003 Series B1, B2, and B3 Bonds, respectively, and 1.5%, 1.5%, 1.4%, 1.48%, and 1.58% for the 2003 Series C1, C2, C3, C4, and C5 Bonds, respectively.

On October 2, 2003, the Authority executed six interest rate exchange agreements (the Swaps) with three counterparties. The Swaps were executed in conjunction with the Authority's issuance of $400 million of its Junior Revenue Bonds (Auction Rate Securities), 2003 Series C (the 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 calculated at a fixed rate of 3.452% to the counterparties to the Swaps that is paid semiannually. In return, the counterparties owe the Authority floating-rate interest equal to 65% of 30-day London Interbank Offered Rate (LIBOR), which is paid to the Authority on a monthly basis. The amortization schedules of the total amount of the Swaps and the Bonds are identical, with each having a final amortization of November 1, 2033.

Year	2003 Series C Bonds principal	Interest-rate swaps: Payment	Interest-rate swaps: Receipts	Interest-rate swaps: Net payment
2005	$ —	(13,808,000)	5,226,000	(8,582,000)
2006	—	(13,808,000)	5,226,000	(8,582,000)
2007	—	(13,808,000)	5,226,000	(8,582,000)
2008	3,375,000	(13,691,495)	5,181,906	(8,509,589)
2009	5,450,000	(13,503,361)	5,110,701	(8,392,660)
2010 – 2014	27,250,000	(64,694,795)	24,485,443	(40,209,352)
2015 – 2019	27,300,000	(59,989,719)	22,704,684	(37,285,035)
2020 – 2024	30,825,000	(54,985,182)	20,810,585	(34,174,597)
2025 – 2029	144,225,000	(41,728,639)	15,793,299	(25,935,340)
2030 – 2033	161,575,000	(7,422,663)	2,809,302	(4,613,361)
Total	$ 400,000,000	(297,439,854)	112,573,920	(184,865,934)

The above table includes payments based on the Authority's fixed-rate payment obligation at an interest rate of 3.452% and the receipts are based on the floating rate equal to 65% of 30-day LIBOR for October 2003 (or rate change effects receipts 0.728%), which the counterparties are obligated to pay the Authority on a monthly basis. (Receipts are projected based on the latest interest rate at October 31, 2004, but will vary monthly.)

The Swaps had a positive fair market value of approximately $8.9 million at October 31, 2004. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time.

The Authority is potentially exposed to a limited degree of counterparty credit risk associated with the Swaps. However, each of the counterparties carries a rating in the "AA" category from at least one of the nationally recognized credit rating agencies. The counterparties are required to post collateral to the extent that they experience an appreciable decline in credit rating and the Swaps have positive fair value for the Authority.

(Continued)

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

Debt service on the Senior Bonds (including the 2003 A Senior Bonds) and on the Junior Bonds (including the 2003 B Junior Bonds and the 2003 C Junior Bonds) is secured by and payable, after satisfaction of certain administrative, operating, and maintenance obligations of the Authority, solely from certain pledged lease revenues and swap receipts which are required to be deposited and maintained in the Pledged Revenue Fund established under the 2003 General Bond Resolution. The Pledged Revenue Fund, including income and earnings on investments thereof, has been pledged and assigned to a trustee for the benefit of the owners of Senior Bonds or Junior Bonds and certain other beneficiaries, as their respective interest may appear. In addition, the Bonds, and certain swap payments and reimbursement obligations, are secured by the Reserve Fund established under the 2003 General Bond Resolution. The rights to payment of Senior Bonds, senior swap payments, and senior reimbursement obligations from amounts in the Pledged Revenue Fund and the Reserve Fund are senior to the rights to payment of Junior Bonds, junior swap payments, and junior reimbursement obligations from such amounts. As of each November 1, amounts in the Pledged Revenue Fund in excess of funding requirements for project operating expenses and certain other amounts will be transferred into an unpledged Residual Fund and may be used by the Authority for other purposes (see note 9).

In September 2003, the Authority entered into an agreement with the City, which supplemented the Settlement Agreement (see note 9), to provide for the custody of the Special Fund. In order to assure the ability of the Authority to develop and operate the Project, the Authority established a new special fund to the credit of which shall be deposited approximately $46 million. The Special Fund was funded from the proceeds of the former special fund created pursuant to the 1993 Master Revenue Resolution upon the dissolution of such existing special fund in connection with the 2003 refunding of outstanding Authority bonds and the issuance of the additional bonds. The Special Fund may only be used by the Authority, as necessary, (i) to pay debt service obligations of the Authority on its bonds, or (ii) for purposes that are jointly agreed upon between the City and the Authority, as the same may be amended from time to time. Neither the Special Fund nor the monies on deposit from time to time therein may be pledged to secure any obligation pursuant to any resolutions authorizing additional bonds or other bonds or debt obligations of the Authority. Income and earnings actually received by or for the account of the Authority from investments of monies on deposit from time to time in the Special Fund shall be treated as revenues.

(13) Housing Revenue Bonds

HRBs outstanding at October 31, 2004 consist of the following:

Type	Interest rates	Maturity dates	Optional redemption date	Annual sinking fund payment period	Balance outstanding
1982 HRBs:					
Current:					
Term	12.875%	2005	1993(1)	2005	$ 195,000
Noncurrent:					
Term	12.875	2006 – 2023	1993(1)	2006 – 2023	7,735,000
Total 1982 HRBs outstanding					7,930,000
1984 HRBs:					
Current:					
Term	10	2005	1993(1)	2005	210,000
Noncurrent:					
Term	10	2006 – 2023	1993(1)	2006 – 2023	10,520,000
Total 1984 HRBs outstanding					10,730,000
1993 HRBs:					
Current:					
Serial	5.10	2005	1994(2)	2005	1,050,000
Serial	5.65	2005	1994(2)	2005	1,080,000
Total current					2,130,000
Noncurrent:					
Term	5.65	2014	1994(2)	2006 – 2014	23,770,000
Term	5.75	2023	1994(2)	2016 – 2023	47,845,000
Total noncurrent					71,615,000
Total 1993 HRBs outstanding					73,745,000
Total current – all outstanding HRBs					2,535,000
Total noncurrent – all outstanding HRBs					89,870,000
Total outstanding HRBs					$ 92,405,000

(1) Redeemable at 100% of principal amount.
(2) Redeemable at 100% of principal amount on or after December 1, 1994.

Serial bonds mature in aggregate principal amounts ranging from $1,930,000 in fiscal 2003 to $2,025,000 in fiscal 2004. The term bonds are required to be redeemed by sinking fund payments prior to maturity in aggregate principal amounts ranging from $325,000 in fiscal 2003 to $9,510,000 in 2023 in increasing annual amounts.

A summary of activity for the HRBs during the fiscal year ended October 31, 2004 is as follows (amounts in thousands):

Balance at October 31, 2003	$	94,795
Repayments		(2,390)
Balance at October 31, 2004	$	92,405

Principal and interest payments due on the HRBs are as follows:

Fiscal year		Principal	Interest	Total
2005	$	2,535,000	6,275,875	8,810,875
2006		2,605,000	6,110,616	8,715,616
2007		2,770,000	5,942,703	8,712,703
2008		2,955,000	5,762,869	8,717,869
2009		3,145,000	5,570,194	8,715,194
2010 – 2014		19,150,000	24,438,586	43,588,586
2015 – 2019		26,645,000	16,950,756	43,595,756
2020 – 2023		32,600,000	5,926,256	38,526,256
Total	$	92,405,000	76,977,855	169,382,855

The HRBs, which were issued to provide financing for the apartment complex referred to in note 6, are special as opposed to general obligations of the Authority and are payable solely from revenue and assets pledged for their payment.

The HRBs are collateralized by a pledge of: (i) payments of interest and principal on the respective mortgage notes from the Housing Company, interest earned on accounts established under the respective HRB Resolutions, and any payments made to the Authority in connection with a claim under FHA mortgage insurance; (ii) the respective mortgage notes and related mortgages from the Housing Company; and (iii) the amounts in accounts established under the respective HRB Resolutions.

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

The Authority entered into a settlement agreement (the Settlement Agreement) with the City which provides, in effect, that: (i) all PILOT received by the Authority from its tenants remaining after operating and administrative expenses, payment of a proportionate part of principal and interest on the 2003 Revenue Bonds, and on any bonds issued to finance the HNYC housing program (see notes 10 and 11), certain site development costs, and any agreed-upon commitments, will be remitted to the City; and (ii) all other rent payments and other revenue received by the Authority, remaining after payment of a proportionate part of the aforementioned items, will be retained by the Authority to the extent not required for the housing program described in the next paragraph and spent in such manner and for such purposes as the Authority and the City shall jointly determine.

The Authority entered into agreements with the City which supplemented the Settlement Agreement to provide, among other things, for the Authority to transfer $600 million, which is to be used by the City to fund the preservation, rehabilitation, and construction of affordable housing. The $151.3 million provided for the transfer to the City at fiscal year ended October 31, 2003 satisfied that commitment and was paid in June 2004. A provision in the amount of $100.9 million has been charged to operations for the fiscal year ended October 31, 2004, which includes bridge franchise fees and the share of PILOT after payment of operating expenses and debt service as described above. The Authority retained approximately $40 million as corporate funds to be spent in a manner and for such purposes as the Authority and the City shall jointly decide.

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

(15) Interest on Mortgage Notes, Rents, and Other Receivables

Interest on mortgage notes, rents, and other receivables comprises the following at October 31, 2004 and 2003:

		2004	2003
Interest on mortgage notes	$	605,635	610,955
Interest on swap agreements		411,956	—
Rents receivable		801,146	770,455
Accrued rental income		767,375	1,070,453
Total receivables		2,586,112	2,451,863
Less allowance for doubtful accounts		(168,959)	(152,773)
Net receivables	$	2,417,153	2,299,090

(16) Accounts Payable and Other Liabilities

Accounts payable and other liabilities at October 31, 2004 and 2003 comprise the following:

	2004	2003
Amounts due to vendors	$ 11,455,722	14,531,245
Contract retention costs	2,386,194	2,284,291
Accrued payment to IRS	—	2,093,364
Accrual for bond issuance costs	—	8,059,657
Due to developers	35,000	1,625,000
Accrued payroll and benefits	54,936	29,469
Security and other deposits	12,286,929	12,254,937
Accrued legal settlement	2,893,242	4,000,000
Total	$ 29,112,023	44,877,963

(17) Retirement Costs

The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer defined benefit retirement systems. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12236.

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

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

2005	$ 510,000
2004	215,086
2003	191,186
Total	$ 916,272

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

(18) Commitments and Other Matters

(a) The Authority has entered into construction and other related contracts, having unexpended balances aggregating $28,530,621 as of October 31, 2004.

(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 $996,598 for the fiscal year ended October 31, 2004.

(c) The Minority Developer Assistance Corporation (MDAC) was incorporated as a New York not-for-profit corporation with the Authority as its sole member. The Authority's members serve as directors of MDAC. MDAC was created for the purpose of implementing and administrating a scholarship and internship program. MDAC is in the process of being dissolved as a corporation.

(d) On October 21, 2003, the Act was amended regarding investments to allow any monies of the Authority, including the proceeds of bonds or notes, not required for immediate use, at the discretion of the Authority to be invested in obligations of the State, U.S. Government and its agencies, or in any other obligations in which the Comptroller is authorized to invest pursuant to Section 98 of the State Finance Law.

(e) The Battery Park City Parks Conservancy (The Conservancy) was incorporated on December 2, 1987 as a New York not-for-profit corporation. The Authority, as sole member of the Conservancy, designated the Authority's members to serve as the Conservancy's board of directors. By modification of the bylaws, the Conservancy added the Authority's President as an additional director. The Conservancy was formed by the Authority to comply with certain requirements of agreements between the Authority and the City pursuant to which the Authority is obligated to maintain or repair the parks and open spaces, which are in and around Battery Park City's residential area. In the fiscal year ended October 31, 2004, the Authority paid the Conservancy approximately $6.5 million for services which are included in the Authority's operating expenses. 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.

(19) Litigation

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

 (Continued)

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

(b) The boards of managers of several residential condominiums in Battery Park City (Petitioner Condominiums) have brought an action against the Authority and the City (Respondents) seeking to compel the Authority to credit Petitioner Condominiums with such amounts as would have been awarded as tax abatements pursuant to Real Property Tax Law Sec. 467-a. The City has computed the amount of such abatements through June 30, 2002, as well as personal exemptions, totaling $5,546,762, for all residential condominiums in Battery Park City that have submitted applications. The Authority is giving credits to Petitioner Condominiums subject to "Supplemental Rent" provisions contained in the leases. The Authority believes that $3,314,858 of the sum will be fully offset by the Petitioner Condominiums' duty to pay Supplemental Rent.

The total amount of abatements under Section 467-a may be expected to increase in the future. In addition, the boards of managers of three of the Petitioner Condominiums, known as the Liberty Buildings, dispute the Authority's view that such credits would be fully offset by a corresponding increase in Supplemental Rent. The Liberty Buildings have expressed an intention to seek to compel the Authority to apply the credits as computed by the City, without any offsetting increases in Supplemental Rent. The Liberty Buildings sought to compel the Authority to apply the credits as computed by the City without offsetting increases in Supplemental Rent. By agreement, the claim was referred to arbitration, a hearing was held and an award made, sustaining the position of the Authority.

(c) The Authority sustained significant damage to portions of its real estate and civic facilities as a consequence of the Attack and its aftermath. Certain World Financial Center tenants, including BFP, Merrill Lynch, and American Express, may assert claims against the Authority in connection with certain civic facilities maintained by BFP damaged or destroyed in the Attack. The Authority's management believes that BFP has the responsibility to insure and restore such facilities and that BFP's insurance carrier is liable for such claims and has sued BFP's insurance carrier to recover for the loss of a pedestrian bridge destroyed in the Attack. The Authority has $10 million of insurance to cover damages to property caused by the Attack, which is insufficient to cover the amount of damage to such facilities.