



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

Basic Financial Statements

October 31, 2005 and 2004

(With Independent Auditors' Report Thereon)

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

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**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, 2005 and 2004, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hugh L. Carey Battery Park City Authority as of October 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 15 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*KPMG LLP*

March 2, 2006

**HUGH L. CAREY BATTERY PARK CITY AUTHORITY**  
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Management's Discussion and Analysis

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## Overview

The following is an overview of the financial activities of Hugh L. Carey Battery Park City Authority (the Authority) for fiscal years ended October 31, 2005 and 2004. 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 U.S. generally accepted accounting principles. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

### Comparison of 2005 to 2004

#### *Financial Highlights*

On April 27, 2005, the outstanding mortgage notes receivable from the Housing Company (see note 6) including interest due on the loans through May 1, 2005 were prepaid. The mortgage notes due totaled \$89,017,694 in principal and \$590,957 in interest, as follows:

<b>Year of mortgage origination</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1982	\$ 7,282,472	81,169	7,363,641
1984	9,666,476	84,582	9,751,058
1993	72,068,746	425,206	72,493,952
	<b>\$ 89,017,694</b>	<b>590,957</b>	<b>89,608,651</b>

The proceeds from the prepayment on the mortgage notes totaling approximately \$89.6 million, along with \$800,952 of Housing Company funds and other funds held (approximately \$5.8 million) in the Housing Bond Resolutions, were used to defease all of the Housing Revenue Bonds (HRBs) outstanding, which were originally issued by the Authority to finance the loans (see note 13). On April 27, 2005, funds sufficient to pay the \$91,355,000 HRBs outstanding (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) and interest on those bonds to June 1, 2005 were transferred to the respective bond trustees. On April 27, 2005, the mortgage notes were satisfied and are no longer assets of the Authority, and the HRBs were defeased and are no longer liabilities. On June 1, 2005, all outstanding HRBs were redeemed by the bond trustees. Other remaining funds held under the HRB resolutions totaling approximately \$8.5 million were transferred and held by the Authority for corporate purposes. In addition, the Housing Company was required to pay \$12 million to entities designated by the Authority and the City of New York (the City) in accordance with the December 20, 2001 agreement between the Housing Company, the Authority, and the City (see note 6). The Authority is holding such payment in escrow pending agreement between the Authority and the City on the disposition of these funds.

A provision for the transfer to the City of \$107.2 million in excess revenues was charged for the fiscal year ended October 31, 2005. Generally, the Authority's change in net assets will decrease with increases in the amount of excess revenues to be provided to the City, which will have an adverse effect on the Authority's net asset position.

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At October 31, 2005, the Authority retains approximately \$90.6 million to be spent in a manner and for such purposes as the Authority and the City shall jointly decide (including approximately \$43.8 million retained at fiscal year ended October 31, 2005). In addition, at fiscal year ended October 31, 2005, the Authority holds approximately \$72.1 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, 2005, there was an increase of approximately \$5.9 million or 5% in Payment in Lieu of Taxes (PILOT) revenue (which accounts for approximately 70% of the Authority's operating revenues) primarily as a result of additions in assessments and tax rates by the City, which represents a net increase of \$2.3 million, and a \$3.6 million PILOT payment accrued on a new residential ground lease for the development of site 16/17.

***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, 2005 and 2004 is as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2005</b>	<b>2004</b>	
<b>Assets:</b>			
Current assets	\$ 12,729,702	5,493,570	7,236,132
Bond resolution assets	341,334,547	410,933,225	(69,598,678)
Battery Park City project assets, net	368,427,407	350,005,899	18,421,508
Other noncurrent assets	260,969,438	296,115,296	(35,145,858)
<b>Total assets</b>	<b>\$ 983,461,094</b>	<b>1,062,547,990</b>	<b>(79,086,896)</b>
<b>Liabilities:</b>			
Current liabilities	\$ 179,738,040	174,109,388	5,628,652
Long-term liabilities	1,103,301,154	1,197,563,850	(94,262,696)
<b>Total liabilities</b>	<b>1,283,039,194</b>	<b>1,371,673,238</b>	<b>(88,634,044)</b>
<b>Net assets (deficit):</b>			
Invested in capital assets, net of related debt	(17,195,715)	(34,192,482)	16,996,767
Restricted	99,834,110	123,893,217	(24,059,107)
Unrestricted	(382,216,495)	(398,825,983)	16,609,488
<b>Total net assets (deficit)</b>	<b>(299,578,100)</b>	<b>(309,125,248)</b>	<b>9,547,148</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 983,461,094</b>	<b>1,062,547,990</b>	<b>(79,086,896)</b>

At October 31, 2005, the Authority maintained total assets of approximately \$983.5 million, approximately \$79.1 million less than total assets at October 31, 2004. The Authority's bond resolution assets are predominantly related to funds and accounts established in accordance with the bond resolutions and total approximately

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\$341.3 million, approximately \$69.6 million lower than the investment value of assets held at October 31, 2004, \$410.9 million. At October 31, 2005, 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 for any lawful corporate purpose (see note 9). Funds held under the 2003 Bond Resolutions were used for the designated purposes of paying debt service of approximately \$41.4 million and project infrastructure costs of approximately \$17.7 million. In addition, in April 2005 all funds held under the Housing Bonds Resolutions totaling approximately \$15 million at October 31, 2004 were transferred to the respective bond trustees to defease the outstanding HRBs and the remaining balance of approximately \$8.5 million was transferred and retained for corporate-designated purposes (see notes 6 and 13). The decrease to assets held under the various bond resolutions were offset by interest earnings and deposits of approximately \$4.5 million as required by the bond resolutions.

At October 31, 2005, the Authority's investment in project assets, net of accumulated depreciation was approximately \$368.4 million. The Battery Park City project (Project) consists of approximately 92 acres of landfill created, owned, and operated by the Authority. The Project's current plan of development includes approximately 35 acres of parkland and open spaces and provides for the construction by private developers of approximately 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 1,800 residential units. Management also anticipates construction to begin on several projects, including 1.8 million square feet of additional commercial space on Site 26 and two residential buildings in 2006. The Authority's Project assets include land, site improvements, and a residential building (Site 22) constructed by the Authority. The balances at October 31, 2005 and 2004 are as follows:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2005</b>	<b>2004</b>	
Land	\$ 83,015,653	83,015,653	—
Site improvements	300,833,526	278,250,147	22,583,379
Residential building	<u>41,741,252</u>	<u>41,741,252</u>	—
	425,590,431	403,007,052	22,583,379
Less accumulated depreciation	<u>(57,163,024)</u>	<u>(53,001,153)</u>	<u>(4,161,871)</u>
Total Battery Park City project assets	<u>\$ 368,427,407</u>	<u>350,005,899</u>	<u>18,421,508</u>

For the fiscal year ended October 31, 2005, the increase to the Project assets over fiscal year 2004 is a result of expenditures of approximately \$22.6 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).

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Other noncurrent assets at October 31, 2005 and 2004 are as follows:

		<b>October 31</b>		<b>Increase (decrease)</b>
		<b>2005</b>	<b>2004</b>	
Receivables from the Housing Company	\$ —	87,883,399		(87,883,399)
Residential lease required funds	6,912,954	10,599,776		(3,686,822)
Corporate-designated and escrowed funds	166,400,365	105,021,575		61,378,790
Deferred costs, net:				
Bond issuance costs, net	42,155,484	44,541,653		(2,386,169)
Costs of leases, net	2,510,132	2,324,301		185,831
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	<u>35,399,561</u>	<u>37,175,928</u>		<u>(1,776,367)</u>
Total deferred costs, net	80,065,177	84,041,882		(3,976,705)
Other assets		<u>7,590,942</u>	<u>8,568,664</u>	<u>(977,722)</u>
Total other noncurrent assets	<u>\$ 260,969,438</u>	<u>296,115,296</u>		<u>(35,145,858)</u>

Other noncurrent assets decreased approximately \$35.1 million from \$296.1 million at October 31, 2004 to \$261 million at October 31, 2005 and primarily relates to the prepayment of the 1982, 1984, and 1993 mortgage note receivables on April 27, 2005, which accounted for an \$87.9 million decrease. As a consequence of the mortgage note prepayments, residential lease-required funds decreased \$3.7 million due to a refund of related housing company funds held in escrow by the Authority at October 31, 2004. Corporate-designated assets increased approximately \$61.4 million primarily due to a transfer of \$40.2 million in "joint purpose funds" (see note 14), which relate to excess revenues from the fiscal year ended October 31, 2004. Additionally, corporate-designated and escrowed funds increased due to a transfer of \$5.6 million from the HRB resolution accounts and a \$12 million payment by the Housing Company which is held in escrow by the Authority for the benefit of the City. Amortization of deferred costs, decreased "bond issuance costs," and "extinguishment of debt" by \$2.4 million and \$1.8 million, respectively, and legal costs incurred on recent leases resulted in a net increase to "cost of leases" of approximately \$186 thousand. Other assets decreased by \$978 thousand primarily due to depreciation of computers, leasehold improvements, and office equipment.

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October 31, 2005 and 2004

Total liabilities at October 31, 2005 and 2004 are as follows:

	<b>October 31,</b>		<b>Increase (decrease)</b>
	<b>2005</b>	<b>2004</b>	
<b>Current liabilities:</b>			
Accrued interest on bonds	\$ 17,499,109	19,771,335	(2,272,226)
Accounts payable and other liabilities	31,256,142	29,112,023	2,144,119
Due to the City of New York	107,200,000	100,965,880	6,234,120
Revenue received in advance	23,782,789	21,725,150	2,057,639
Housing Revenue Bonds	—	2,535,000	(2,535,000)
<b>Total current liabilities</b>	<b>179,738,040</b>	<b>174,109,388</b>	<b>5,628,652</b>
<b>Noncurrent liabilities:</b>			
Revenue received in advance	37,350,894	40,428,855	(3,077,961)
<b>Bonds outstanding:</b>			
Housing Revenue Bonds	—	89,870,000	(89,870,000)
2003 Revenue Bonds	1,065,950,260	1,067,264,995	(1,314,735)
<b>Total noncurrent liabilities</b>	<b>1,103,301,154</b>	<b>1,197,563,850</b>	<b>(94,262,696)</b>
<b>Total liabilities</b>	<b>\$ 1,283,039,194</b>	<b>1,371,673,238</b>	<b>(88,634,044)</b>

The Authority's total liabilities decreased approximately \$88.6 million, from a total of \$1.372 billion at October 31, 2004 to \$1.283 billion at October 31, 2005.

Current liabilities largely comprise amounts due to the City, the current portion of bonds outstanding, accrued interest on bonds, revenue received in advance, and accounts payable and accrued expenses. An increase of approximately \$5.6 million in current liabilities is due to the provision for amounts due to the City of \$101 million for the fiscal year ended October 31, 2004, which was paid in June 2005, and \$107.2 million accrued at October 31, 2005. Additionally, accrued interest payable on bonds, approximately \$17.5 million at October 31, 2005 is \$2.3 million less than the October 31, 2004 balance of \$19.8 million due to the defeasance of the HRBs on April 27, 2005. Accounts payable and other liabilities increased \$2.1 million from \$29.1 million at October 31, 2004 to \$31.3 million at October 31, 2005 (see note 16).

Noncurrent and current liabilities related to bonds outstanding mainly comprise the Authority's long- and short-term debt. The primary reason for the \$93.7 million decrease in total bonds outstanding from \$1.16 billion at October 31, 2004 to \$1.066 billion at October 31, 2005 was a \$1.05 million principal payment on the HRBs in December 2004 and the defeasance of the remaining HRBs outstanding, \$91,355,000 (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) on April 27, 2005. On October 16, 2003, the Authority issued \$1.068 billion for the 2003 Revenue Bonds. Principal payments on these debt obligations begin November 2008. There was a decrease of approximately \$1.3 million on the balance of the 2003 Revenue Bonds outstanding due to amortization of the bond premium. In addition, as of October 31, 2005, total "revenues received in advance" decreased by \$1 million over October 31, 2004 primarily due to change in the period of revenue recognition related to the Site 22 "upfront payment" (see note 3(d)).

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The net assets (deficit) at October 31, 2005 and 2004 were \$(299.6) million and \$(309.1) million, respectively. Investment in capital assets, net of related debt was \$(17.2) million at October 31, 2005. 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 \$99.8 million of restricted net assets represents resources that are subject to various external restrictions on how they may be used to the benefit of the Authority. These assets are generally restricted for debt service and capital projects. The resulting balance is classified as an unrestricted deficit totaling approximately \$(382.2) million.

The overall change in total net assets from October 31, 2004 is an increase of approximately \$9.5 million and indicates that the total asset position of the Authority has increased during the fiscal year ended October 31, 2005.

**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, 2005 and 2004:

Revenues from ground leases:

Base rent	\$ 45,667,458	43,063,667	2,603,791
Supplemental rent	709,003	581,545	127,458
Payments in lieu of real estate taxes	126,182,058	120,267,912	5,914,146
Civic facilities payments and others	7,089,909	6,663,808	426,101
Total operating revenues	<u>179,648,428</u>	<u>170,576,932</u>	<u>9,071,496</u>

Operating expenses:

Wages and related benefits	6,061,597	5,705,404	356,193
Other operating and administrative expenses	20,586,154	24,999,597	(4,413,443)
Depreciation and amortization	10,546,510	11,751,704	(1,205,194)
Total operating expenses	<u>37,194,261</u>	<u>42,456,705</u>	<u>(5,262,444)</u>
Operating income	<u>142,454,167</u>	<u>128,120,227</u>	<u>14,333,940</u>

Nonoperating revenues (expenses):

Investment and other income	24,870,714	24,801,703	69,011
Interest expense	(50,285,813)	(48,278,368)	(2,007,445)
IRS arbitrage rebate	(291,920)	(3,137)	(288,783)
Provision for transfer to the City of New York	<u>(107,200,000)</u>	<u>(100,965,880)</u>	<u>(6,234,120)</u>
Total nonoperating expenses, net	<u>(132,907,019)</u>	<u>(124,445,682)</u>	<u>(8,461,337)</u>
Change in net assets	9,547,148	3,674,545	5,872,603
Net assets (deficit) beginning of year	<u>(309,125,248)</u>	<u>(312,799,793)</u>	<u>3,674,545</u>
Net assets (deficit) end of year	<u>\$ (299,578,100)</u>	<u>(309,125,248)</u>	<u>9,547,148</u>

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A summary of revenues and expenses for the fiscal years ended October 31, 2005 and 2004 is as follows:

***Operating Revenues*** – Overall revenues for the fiscal years ended October 31, 2005 and 2004 totaled \$179.6 million and \$170.6 million, respectively, and consist primarily of base (land) rent and real estate taxes (PILOT) from long-term leaseholds. Base rent lease payments for the fiscal year ended October 31, 2005, \$45.7 million, increased \$2.6 million from fiscal year 2004 due to a \$421 thousand accrual for Site 26, a new commercial building (see note 5), a \$917 thousand accrual for Sites 16/17, a new residential building (see note 7), and additional base rent recognized in fiscal 2005 over fiscal 2004 for Site 22 (see note 3(d)), approximately \$1.3 million. In addition, PILOT revenues (which account for approximately 70% of the Authority's operating revenues) increased \$5.9 million, as a result of additions in assessments, an increase in tax rates by the City, and accrued lease payments associated with the new residential building (see note 7), approximately \$3.6 million.

***Operating Expenses*** – Operating expenses totaled approximately \$37.2 million for the fiscal year ended October 31, 2005, approximately \$5.3 million less than the fiscal year ended October 31, 2004. Wages and related benefits increased \$356 thousand. Other operating and administrative expenses decreased approximately \$4.4 million, primarily due to a decrease in spending for planning and design costs, security, legal costs, insurance costs, and amounts funded for the benefit of the Battery Park City Parks Conservancy. Adjustments to depreciation and amortization expenses resulted in a net decrease of \$1.2 million over the prior fiscal year ended October 31, 2004. 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.

***Nonoperating Revenues (Expenses)*** – Total (net) nonoperating expenses of \$(132.9) million for the fiscal year ended October 31, 2005 were approximately \$8.5 million higher than the (net) nonoperating expenses of \$(124.4) million for the fiscal year ended October 31, 2004. A provision for a transfer to the City of \$107.2 million in excess revenues was charged for the fiscal year ended October 31, 2005, an increase of approximately \$6.2 million from the fiscal year ended October 31, 2004. Interest earnings and other income increased over the prior fiscal year ended October 31, 2004 marginally, primarily due to higher market interest rates available on fewer funds held for investment. Interest expense related to outstanding bonds increased by \$2 million for the fiscal year ended October 31, 2005, primarily due to higher interest rates on the variable-rate 2003 Revenue Bonds.

***Change in Net Assets*** – The total net assets (deficit) at October 31, 2005 and 2004 were \$(299.6) million and \$(309.1) million, respectively.

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**Comparison of 2004 to 2003**

*October 31, 2004 and 2003*

***Overview***

The following is an overview of the financial activities of the Authority for fiscal years ended October 31, 2004 and 2003.

***Financial Highlights***

A provision for the transfer to 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 \$5.6 million as corporate funds to be spent in a manner and for such purposes as the Authority and the City shall jointly decide which was retained at fiscal year ended October 31, 2003. 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 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.

***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:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2004</b>	<b>2003</b>	
<b>Assets:</b>			
Current assets	\$ 5,493,570	5,281,766	211,804
Bond resolution assets	410,933,225	444,509,164	(33,575,939)
Battery Park City project assets, net	350,005,899	340,320,110	9,685,789
Other noncurrent assets	296,115,296	321,135,883	(25,020,587)
Total assets	<u>\$ 1,062,547,990</u>	<u>1,111,246,923</u>	<u>(48,698,933)</u>

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	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2004</b>	<b>2003</b>	
<b>Liabilities:</b>			
Current liabilities	\$ 174,109,388	224,240,784	(50,131,396)
Long-term liabilities	<u>1,197,563,850</u>	<u>1,199,805,932</u>	<u>(2,242,082)</u>
Total liabilities	<u>1,371,673,238</u>	<u>1,424,046,716</u>	<u>(52,373,478)</u>
<b>Net assets (deficit):</b>			
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	<u>(398,825,983)</u>	<u>(373,736,906)</u>	<u>(25,089,077)</u>
Total net assets (deficit)	<u>(309,125,248)</u>	<u>(312,799,793)</u>	<u>3,674,545</u>
Total liabilities and net assets (deficit)	<u>\$ 1,062,547,990</u>	<u>1,111,246,923</u>	<u>(48,698,933)</u>

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 \$410.9 million, which is approximately \$33.6 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 \$33.6 million from \$444.5 million at October 31, 2003 to \$410.9 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 \$10.1 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 decreased approximately \$25 million from \$321.1 million at October 31, 2003 to \$296 million at October 31, 2004. Corporate-designated assets decreased approximately \$15.8 million and primarily relates to \$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 Project consists of approximately 92 acres of landfill created, owned, and

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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:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2004</b>	<b>2003</b>	
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
	<hr/> 403,007,052	<hr/> 386,619,192	<hr/> 16,387,860
Less accumulated depreciation	(53,001,153)	(46,299,082)	(6,702,071)
Total Battery Park City project assets	<hr/> \$ 350,005,899	<hr/> 340,320,110	<hr/> 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 \$50.1 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 had \$1.067 billion of the 2003 Revenue Bonds outstanding, compared to \$1.068 billion in 2003. The change was due

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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.

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***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:

	<b>October 31</b>		<b>Increase (decrease)</b>
	<b>2004</b>	<b>2003</b>	
<b>Operating revenues:</b>			
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 other	<u>6,663,808</u>	<u>4,449,673</u>	<u>2,214,135</u>
Total operating revenues	<u>170,576,932</u>	<u>160,821,969</u>	<u>9,754,963</u>
<b>Operating expenses:</b>			
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	<u>11,751,704</u>	<u>9,149,826</u>	<u>2,601,878</u>
Total operating expenses	<u>42,456,705</u>	<u>39,484,517</u>	<u>2,972,188</u>
Operating income	<u>128,120,227</u>	<u>121,337,452</u>	<u>6,782,775</u>
<b>Nonoperating revenues (expenses):</b>			
Investment and other income	24,801,703	16,575,966	8,225,737
Interest expense (see note 12)	(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	<u>(100,965,880)</u>	<u>(151,302,767)</u>	<u>50,336,887</u>
Total nonoperating expenses, net	<u>(124,445,682)</u>	<u>(406,958,794)</u>	<u>282,513,112</u>
Change in net assets	<u>3,674,545</u>	<u>(285,621,342)</u>	<u>289,295,887</u>
Net assets (deficit), beginning of year	<u>(312,799,793)</u>	<u>(27,178,451)</u>	<u>(285,621,342)</u>
Net assets (deficit), end of year	<u>\$ (309,125,248)</u>	<u>(312,799,793)</u>	<u>3,674,545</u>

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

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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 years ended October 31, 2004 and 2003, respectively. In addition, for fiscal year ended October 31, 2003, approximately \$221.7 million was transferred to Housing New York Corporation (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.

**Other Information**

**Debt Administration** - At October 31, 2005, the Authority was responsible for debt service on \$1.066 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. As of April 27, 2005, the HRBs outstanding totaling approximately \$91.3 million were defeased and are no longer liabilities of the Authority.

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***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 three residential buildings began in 2004, one substantially completed in the summer of 2005 and the other two buildings are expected to be finished in the spring and fall of 2006. A 1.8 million-square-foot commercial tower began construction in calendar 2005 and two additional residential projects (730 units) are expected to begin construction in early 2006. 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 [see notes 18(c) and 19(c)].

***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](http://www.batteryparkcity.org).

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Balance Sheets

October 31, 2005 and 2004

Assets	<u>2005</u>	<u>2004</u>
<b>Current assets:</b>		
Cash and cash equivalents (note 3)	\$ 3,107	850,287
Investments (note 3)	4,791,024	—
<b>Restricted assets:</b>		
Interest on mortgage notes, rents, and other receivables (net of allowance for doubtful accounts of \$152,931 in 2005 and \$168,959 in 2004) (note 15)	7,935,571	2,417,153
Receivable from Housing Company under Federal Housing Administration-insured mortgage notes (notes 6 and 13)	—	2,226,130
<b>Total current assets</b>	<u>12,729,702</u>	<u>5,493,570</u>
<b>Noncurrent assets:</b>		
<b>Restricted assets:</b>		
Funds and accounts established in accordance with bond resolutions (notes 3, 9, 11, 12, and 13):		
Housing Revenue Bonds	—	15,075,037
2003 Revenue Bonds	341,334,547	395,858,188
<b>Total funds and accounts established in accordance                 with bond resolutions</b>	<u>341,334,547</u>	<u>410,933,225</u>
Receivables from Housing Company under Federal Housing Administration-insured mortgage notes (notes 6 and 13)	—	87,883,399
Residential lease required funds (note 3)	6,912,954	10,599,776
Corporate-designated and escrowed funds (note 3)	166,400,365	105,021,575
<b>Deferred costs (note 3):</b>		
Bond issuance costs, less accumulated amortization of \$8,119,763 in 2005 and \$5,610,945 in 2004	42,155,484	44,541,653
Costs of leases, less accumulated amortization of \$682,711 in 2005 and \$641,180 in 2004	2,510,132	2,324,301
Unamortized loss on extinguishment of 1993, 1996, and 2000 bonds	35,399,561	37,175,928
Battery Park City project assets – at cost, less accumulated depreciation (notes 2, 3, and 4)	368,427,407	350,005,899
Other assets	<u>7,590,942</u>	<u>8,568,664</u>
<b>Total noncurrent assets</b>	<u>970,731,392</u>	<u>1,057,054,420</u>
<b>Total assets</b>	<u>\$ 983,461,094</u>	<u>1,062,547,990</u>

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Balance Sheets

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<b>Liabilities and Net Assets (Deficit)</b>	<b>2005</b>	<b>2004</b>
<b>Current liabilities:</b>		
Accrued interest on bonds	\$ 17,499,109	19,771,335
Accounts payable and other liabilities (note 16)	31,256,142	29,112,023
Due to the City of New York (note 14)	107,200,000	100,965,880
Revenue received in advance	23,782,789	21,725,150
Bonds outstanding (notes 6, and 13):		
Housing Revenue Bonds	—	2,535,000
Total current liabilities	179,738,040	174,109,388
<b>Noncurrent liabilities:</b>		
Revenue received in advance (note 3)	37,350,894	40,428,855
Bonds outstanding (notes 10, 11, 12, and 13):		
Housing Revenue Bonds	—	89,870,000
2003 Revenue Bonds, less accumulated amortization of \$1,314,735 in 2005 and \$1,080,977 in 2004	1,065,950,260	1,067,264,995
Total noncurrent liabilities	1,103,301,154	1,197,563,850
Total liabilities	1,283,039,194	1,371,673,238
<b>Net assets (deficit) (note 3):</b>		
Invested in capital assets, net of related debt	(17,195,715)	(34,192,482)
Restricted:		
Debt service	14,452,652	60,098,229
Capital projects	85,381,458	63,794,988
Unrestricted deficit	(382,216,495)	(398,825,983)
Total net assets (deficit)	(299,578,100)	(309,125,248)
Total liabilities and net assets (deficit)	\$ 983,461,094	1,062,547,990

See accompanying notes to financial statements.

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

Years ended October 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
<b>Operating revenues:</b>		
Revenues from ground leases (notes 5, 6, 7, and 8):		
Base rent	\$ 45,667,458	43,063,667
Supplemental rent	709,003	581,545
Payments in lieu of real estate taxes	126,182,058	120,267,912
Civic facilities payments and other	7,089,909	6,663,808
Total operating revenues	<u>179,648,428</u>	<u>170,576,932</u>
<b>Operating expenses:</b>		
Wages and related benefits	6,061,597	5,705,404
Other operating and administrative expenses (note 18(e))	20,586,154	24,999,597
Depreciation of project assets	4,161,871	6,702,071
Other depreciation and amortization	6,384,639	5,049,633
Total operating expenses	<u>37,194,261</u>	<u>42,456,705</u>
Operating income	<u>142,454,167</u>	<u>128,120,227</u>
<b>Nonoperating revenues (expenses):</b>		
Investment income on funds relating to:		
Housing Revenue Bonds	282,901	497,365
2003 Revenue Bonds	10,782,434	7,158,703
Corporate-designated and escrowed funds and other	5,485,715	2,680,931
Net increase in the fair value of investments	4,764,214	7,209,419
Interest income on receivable from Housing Company	3,555,450	7,255,285
Interest expense relating to:		
Housing Revenue Bonds	(3,658,142)	(6,352,842)
2003 Revenue Bonds	(46,627,671)	(41,925,526)
IRS arbitrage rebate expense	(291,920)	(3,137)
Provision for transfer to the City of New York of payments in lieu of real estate taxes and other amounts (note 14)	<u>(107,200,000)</u>	<u>(100,965,880)</u>
Total nonoperating revenues (expenses)	<u>(132,907,019)</u>	<u>(124,445,682)</u>
Change in net assets	9,547,148	3,674,545
Net assets (deficit), beginning of year	<u>(309,125,248)</u>	<u>(312,799,793)</u>
Net assets (deficit), end of year	<u>\$ (299,578,100)</u>	<u>(309,125,248)</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended October 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Cash receipts from:		
Tenant payments	\$ 171,882,348	168,408,290
Miscellaneous receipts	14,954	367,285
Total cash receipts from operating activities	<u>171,897,302</u>	<u>168,775,575</u>
Cash payments for:		
Salaries and benefits	(6,197,575)	(5,787,706)
Services and supplies	(22,306,308)	(24,635,770)
Total cash payments from operating activities	<u>(28,503,883)</u>	<u>(30,423,476)</u>
Net cash provided by operating activities	<u>143,393,419</u>	<u>138,352,099</u>
Cash flows from noncapital financing activities:		
Escrow deposit held for City of New York	12,000,000	—
Payment to New York City	(100,965,880)	(151,302,767)
Net cash used in noncapital financing activities	<u>(88,965,880)</u>	<u>(151,302,767)</u>
Cash flows from capital and related financing activities:		
Principal payments on Housing Revenue Bonds	(1,050,000)	(2,390,000)
Interest paid on Housing Revenue Bonds	(3,151,325)	(6,396,313)
Closeout of Housing Revenue Bonds-related funds	(9,838,677)	—
Development costs – site improvements and construction	(22,583,379)	(16,387,860)
Cash reimbursements for capital expenditures	1,019,542	—
Auction fees paid for variable debt	(1,602,708)	(1,624,027)
Swap payment made on the 2003 swap agreement	(13,808,000)	(7,479,333)
Swap interest payments received	7,373,067	3,089,026
Interest paid on 2003 Junior Revenue Bonds	(12,383,520)	(6,861,322)
Interest paid on 2003 Senior Revenue Bonds	(19,855,799)	(20,683,124)
Net cash used in capital and related financing activities	<u>(75,880,799)</u>	<u>(58,732,953)</u>
Cash flows from investing activities:		
Mortgage principal repayments from Housing Company	1,091,928	2,063,506
Interest received on receivable from Housing Company	3,570,128	7,260,606
Interest received on investment securities	11,800,106	11,075,545
Redemption and sale of investment securities	278,489,247	782,021,425
Purchase of investment securities	(274,345,329)	(730,882,933)
Net cash provided by investing activities	<u>20,606,080</u>	<u>71,538,149</u>
Decrease in cash and cash equivalents	<u>(847,180)</u>	<u>(145,472)</u>
Cash and cash equivalents, beginning of year	<u>850,287</u>	<u>995,759</u>
Cash and cash equivalents, end of year	<u>\$ 3,107</u>	<u>850,287</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 142,454,167	128,120,227
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	10,546,510	11,751,704
Changes in operating assets and liabilities:		
(Increase) decrease in rents and other receivables	(5,518,418)	1,481,349
Increase in other assets	(1,080,202)	(941,954)
Decrease in accounts payable and other liabilities	(1,988,316)	(3,001,509)
(Decrease) increase in revenue received in advance	(1,020,322)	942,282
Net cash provided by operating activities	<u>\$ 143,393,419</u>	<u>138,352,099</u>
Supplemental noncash transactions disclosure (note 13):		
Payment by Housing Company for satisfaction of the Receivable Under FHA	\$ 88,807,698	—
Direct transfer by Housing Company to bond trustee for satisfaction of the Housing Revenue Bonds	(81,516,323)	—

See accompanying notes to financial statements.

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Notes to Financial Statements

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**(1) General**

Hugh L. Carey Battery Park City Authority (the Authority) is a public benefit corporation created in 1968 under the laws of the State of New York (the State) pursuant to the Battery Park City Authority Act (the Act) and is a legally separate entity from the State. For State 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 (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 5 residential buildings totaling approximately 1,800 residential units and 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 January 1, 2006, three residential projects totaling approximately 756 units and 1.8 million square feet are under construction and one other residential project is expected to begin construction during the spring 2006.

**(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

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issued after November 30, 1989 that do not conflict with GASB pronouncements. The Authority has elected to follow GASB pronouncements exclusively subsequent to November 30, 1989.

**(b) Use of Estimates**

The preparation of financial statements in accordance with 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, 2005 and 2004 are capitalized as project assets and classified as follows:

	Balance at October 31, 2004	Additions	Deletions	Balance at October 31, 2005
Land	\$ 83,015,653	—	—	83,015,653
Site improvements	278,250,147	22,583,379	—	300,833,526
Residential building	<u>41,741,252</u>	<u>—</u>	<u>—</u>	<u>41,741,252</u>
Total project assets	<u>403,007,052</u>	<u>22,583,379</u>	<u>—</u>	<u>425,590,431</u>
Less accumulated depreciation:				
Site improvements	47,998,307	3,327,046	—	51,325,353
Residential building	<u>5,002,846</u>	<u>834,825</u>	<u>—</u>	<u>5,837,671</u>
Total accumulated depreciation	<u>53,001,153</u>	<u>4,161,871</u>	<u>—</u>	<u>57,163,024</u>
Net project assets	<u>\$ 350,005,899</u>	<u>18,421,508</u>	<u>—</u>	<u>368,427,407</u>

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

The Authority records project assets at historical cost. The costs of normal maintenance of the Project that do not add to the value of the Project or extend its useful life are not capitalized. Upon completion, site improvement costs, which consist principally of infrastructure 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 first 25 year lease period. Amounts not recognized are reported as deferred revenue in current and 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

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approximates fair value. Deposit and inherent risks that could affect the Authority's ability to provide services and meet its obligations as they become due are reported in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. The Authority's investments in securities backed by the full faith and credit of the U.S. Government or municipal issuances of a credit quality no lower than 'A' grade are held by the Authority's financial institutions in the Authority's name. All investments held in funds and accounts established in accordance with bond resolutions are held as trust assets by the trustee banks.

Total investments and deposits held by the Authority at October 31, 2005 and 2004 included within the balance sheet accounts are: investments, corporate-designated and escrowed funds, funds and accounts established in accordance with bond resolutions (see note 9), and residential lease required funds as follows:

	<b>2005</b>		<b>2004</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
U.S. Treasury bills	\$ 258,336,861	258,336,861	162,508,103	162,508,103
Municipal issuances	51,689,288	51,689,288	180,786,370	180,786,370
U.S. Treasury strips	1,597,217	2,177,185	1,753,024	2,461,216
U.S. Treasury notes/bonds	125,657,700	125,213,940	104,681,460	108,109,072
GNMAs	<u>79,345,648</u>	<u>79,345,648</u>	<u>61,573,073</u>	<u>61,573,073</u>
 Total investments	 516,626,714	 516,762,922	 511,302,030	 515,437,834
 Cash and cash equivalents	 <u>2,675,968</u>	 <u>2,675,968</u>	 <u>11,116,742</u>	 <u>11,116,742</u>
 Total investments and deposits	 <u>\$ 519,302,682</u>	 <u>519,438,890</u>	 <u>522,418,772</u>	 <u>526,554,576</u>

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 depreciation 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.

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**(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 statements 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 fiscal 2004 amounts were reclassified to conform with the fiscal 2005 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, 2005, 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, 2005, the leases, which expire in 2069, provide for future base rent payments aggregating approximately \$3.2 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

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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.

In August 2005, a lease was signed by Goldman Sachs for the development of a 2 million square foot trading and office headquarters project on Site 26 north of the World Financial Center. The Site 26 ground lease provides for a lump sum base rent payment of approximately \$161 million no earlier than mid-2007, receipt of which is subject to certain escrow conditions. PILOT payments under the lease are made subject to incentive reductions exemptions to Goldman Sachs, contingent on Goldman Sach's employment and headquarters commitments to New York City. Approximately \$178 thousand was accrued as PILOT revenues and \$421 thousand was accrued as base rent for the fiscal year ended October 31, 2005 based on the lease terms. In addition, in December 2005, Goldman Sachs made a \$3.5 million lease payment to the

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Authority, which is to be held in escrow for the benefit of the local community board to help fund a library at Battery Park City in the base of a residential building in the north neighborhood.

**(6) Gateway Project**

In 1980, the Authority entered into a lease with a limited-profit housing company (the Housing Company), which constructed an apartment complex consisting of 1,712 rental apartment units (the Gateway Project). The lease, as amended, expires in 2040 and may be extended at the option of the tenant through 2069.

Permanent financing was provided by the Authority from the proceeds of Housing Revenue Bonds (HRBs) (see note 13). The notes were collateralized by separate nonrecourse mortgages (coordinate in lien) from the Housing Company and Marina Towers Associates, L.P. (Marina Towers), a limited partnership, of which the Housing Company is general partner. Repayment of loans under the mortgage notes was insured by the Federal Housing Administration (FHA). On April 27, 2005, the total mortgage loans receivable including interest due on the loans from the Housing Company through May 1, 2005 were prepaid. The mortgage loans due totaled \$89,017,694 in principal and \$590,956 in interest and are as follows:

<b>Year of mortgage origination</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1982	\$ 7,282,472	81,169	7,363,641
1984	9,666,476	84,582	9,751,058
1993	<u>72,068,746</u>	<u>425,206</u>	<u>72,493,952</u>
	<u>\$ 89,017,694</u>	<u>590,957</u>	<u>89,608,651</u>

The proceeds from the prepayment on the mortgage loans totaling approximately \$89.6 million along with \$800,952 of Housing Company funds and other funds held (approximately \$5.8 million) in the Housing Bond Resolutions were used to defease all of the HRBs outstanding, which were originally issued by the Authority to finance the loans (see note 13). On April 27, 2005, funds sufficient to pay the \$91,355,000 HRBs outstanding (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) and interest on those bonds to June 1, 2005 were transferred to the respective bond trustees and all outstanding HRBs were redeemed on June 1, 2005. As of April 27, 2005, the Housing Company mortgage loans were satisfied and are no longer assets and the HRBs were defeased and are no longer liabilities of the Authority. By agreement dated as of December 20, 2001 among the Authority, the Housing Company, Marina Towers, and the City, a refinancing plan was approved that provided for payoff of the existing loans owed to the Authority, the dissolution of the Housing Company, and assignment of the lease to Marina Towers, amendment of the lease with restructuring of tax equivalency payments, and a lump-sum payment of \$12,000,000 to an entity or entities to be designated jointly by the Authority and the City. The refinancing transaction was completed on April 27, 2005. The lump-sum payment is being held by the Authority in escrow pending joint designation of payees by the Authority and the City. The HRBs are retired and the Authority is no longer a mortgagee with respect to the Gateway Project. The loans provided by a private lender to effectuate the refinancing are also insured by the FHA. In addition, the Authority returned approximately \$4.2 million of Housing Company funds held in escrow.

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

**(7) Residential and Other Development**

In addition to the Gateway Project, the Authority entered into leases in the 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.

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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.

On December 30, 2005, a ground lease for the development of Site 16/17 in Battery Park City between the Authority and Site 16/17 Development LLC became effective and the Authority was paid \$60 million as a non-refundable "upfront payment," as well as \$5.4 million for base rent and PILOT accruing since January 1, 2005. Accordingly, approximately \$4.6 million of revenues including \$3.6 million of PILOT and \$917 thousand of base rent were recorded as accrued revenues at October 31, 2005. Regular payments of base rent, PILOT, and other elements of rent, including a share of the proceeds of the sales of condominium units, will be received by the Authority over the remaining 64-year term of the lease.

**(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, 2006 through 2010 and thereafter are as follows:

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Thereafter</b>	<b>Total</b>
	(In thousands)						
Commercial development:							
Base rent	\$ 27,545	27,556	27,568	27,062	24,485	1,189,488	1,323,704
Residential developments:							
POD III Project base rent	305	305	305	305	305	9,060	10,585 (a)
S. Res. neighborhood:							
Base rent	11,518	11,738	11,896	12,823	17,997	1,341,096	1,407,068
Other minimum payments	13,020	13,048	13,084	12,392	2,702	—	54,246
Subtotal S. Res.	24,538	24,786	24,980	25,215	20,699	1,341,096	1,461,314
N. Res. neighborhood:							
Base rent	3,551	3,591	3,634	3,678	3,724	397,837	416,015
Other minimum payments	1,165	1,165	1,165	1,165	1,164	20,854	26,678
Subtotal N. Res.	4,716	4,756	4,799	4,843	4,888	418,691	442,693
Total	\$ 57,104	57,403	57,652	57,425	50,377	2,958,335	3,238,296

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

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

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included. Additionally, the onetime, "upfront payment" of \$60 million from Site 16/17 paid December 30, 2005 is not included here (see note 7). 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, 2005:

	2003 Revenue Bonds			
	2003 Revenue Bonds	2003 Senior Bonds	2003 Junior Bonds	Total 2003 Bonds
Debt Service Funds	\$ —	22,445,808	19,701,181	42,146,989
Reserve Funds	71,376,678	—	—	71,376,678
Project Costs	72,062,394	—	—	72,062,394
Project Operating Fund	8,309,725	—	—	8,309,725
Residual Fund	1,583,916	—	—	1,583,916
Costs of Issuance Fund	68,827	—	—	68,827
Pledged Revenue Fund	145,786,018	—	—	145,786,018
	<u>\$ 299,187,558</u>	<u>22,445,808</u>	<u>19,701,181</u>	<u>341,334,547</u>

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, 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	—	141,145,671	—	—	141,145,671
Costs of Issuance Fund	—	151,803	—	—	151,803
Pledged Revenue Fund	—	1,450,307	—	—	1,450,307
Other	2,408,186	116,837	—	—	116,837
	<u>\$ 15,075,037</u>	<u>312,088,571</u>	<u>41,874,582</u>	<u>41,895,035</u>	<u>395,858,188</u>

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

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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(e)).

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

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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, 2005, 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, 2005, the liability for all defeased (refunded) revenue bonds is not

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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 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.

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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, 2005.

At October 31, 2005, the 2003 Series A Bonds consist of the following serial bonds:

Maturity dates	Coupon rates	Principal amounts	Interest
2006		\$ —	19,855,799
2007		—	19,855,799
2008	2.10%	14,570,000	19,855,799
2009	2.38 - 5.00	12,980,000	19,549,829
2010	2.63 - 5.00	13,645,000	19,085,929
2011-2015	3.00 - 5.50	81,140,000	85,380,745
2016-2020	3.80 - 5.25	109,370,000	61,793,227
2021-2025	4.40 - 5.25	141,855,000	30,295,378
2026	4.70 - 5.00	32,790,000	1,635,615
		<u>\$ 406,350,000</u>	<u>277,308,120</u>

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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, 2005 and 2004, the unamortized net bond premium was approximately \$24.6 million and \$25.9 million, respectively.

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

At October 31, 2005, principal and interest payments due on the 2003 Series B Bonds and the 2003 Series C Bonds are as follows:

Fiscal year	Junior B		Junior C		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ —	5,657,500	—	10,234,448	—	15,891,948
2007	—	5,657,500	—	10,234,448	—	15,891,948
2008	—	5,657,500	3,375,000	10,148,962	3,375,000	15,806,462
2009	—	5,657,500	5,450,000	10,010,852	5,450,000	15,668,352
2010	—	5,657,500	5,450,000	9,872,815	5,450,000	15,530,315
2011 - 2015	—	28,287,500	27,250,000	47,292,869	27,250,000	75,580,369
2016 - 2020	—	28,287,500	27,575,000	43,831,590	27,575,000	72,119,090
2021 - 2025	—	28,287,500	31,975,000	40,047,260	31,975,000	68,334,760
2026 - 2030	—	28,287,500	184,025,000	26,465,988	184,025,000	54,753,488
2031 - 2035	72,675,000	25,658,588	114,900,000	2,637,376	187,575,000	28,295,963
2036 - 2039	162,325,000	6,053,525	—	—	162,325,000	6,053,525
Total	\$ 235,000,000	173,149,613	400,000,000	210,776,608	635,000,000	383,926,221

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

Interest in the above table is based on actual auction rates closest to October 31, 2005, which were 2.25%, 2.37%, and 2.40% for the Series B1, B2, and B3 of the 2003 Series B Bonds, respectively, and 2.598%, 2.55%, 2.375%, 2.50%, and 2.57% for the Series C1, C2, C3, C4, and C5 of the 2003 Series C 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 Bonds. The total notional amount of the Swaps was \$400,000,000. The effective date for the Swaps was October 16, 2003, which coincided with the delivery date of the Bonds. The Authority executed the Swaps in order to effectively convert the variable rate Bonds to a net fixed rate. Based on the swap agreements, the Authority owes interest to the swap counterparties that is calculated at a fixed rate of 3.452% and paid semiannually. In return, on a monthly basis, the counterparties pay the Authority floating-rate interest equal to 65% of 30-day London Interbank Offered Rate (LIBOR). 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.

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Year	2003 Series C Bonds		Interest-rate swaps		Net payment
	Principal		Payment	Receipts	
2006	\$ —		(13,808,000)	10,634,000	(3,174,000)
2007	—		(13,808,000)	10,634,000	(3,174,000)
2008	3,375,000		(13,691,495)	10,544,276	(3,147,219)
2009	5,450,000		(13,503,361)	10,399,387	(3,103,974)
2010	5,450,000		(13,315,227)	10,254,499	(3,060,728)
2011 - 2015	27,250,000		(63,754,125)	49,099,172	(14,654,953)
2016 - 2020	27,575,000		(59,037,830)	45,466,996	(13,570,834)
2021 - 2025	31,975,000		(53,881,405)	41,495,862	(12,385,543)
2026 - 2030	184,025,000		(35,376,096)	27,244,308	(8,131,788)
2031 - 2033	114,900,000		(3,456,315)	2,661,823	(794,492)
Total	\$ 400,000,000		(283,631,854)	218,434,323	(65,197,531)

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 31, 2005, 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, 2005, but will vary monthly.)

The Swaps had a negative fair market value of approximately \$(2.17) million at October 31, 2005. The fair market value was provided by the Authority's financial advisor and derived from financial models based upon reasonable estimates about relevant market conditions at the time.

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

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

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

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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 14), to provide for the custody of the Special Fund (see note 9). 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**

The HRBs, which were issued to provide financing for the apartment complex referred to in note 6, were special as opposed to general obligations of the Authority and were payable solely from revenue and assets pledged for their payment. The HRBs were collateralized by a pledge of: (i) payments of interest and principal on the respective mortgage notes from the Housing Company, interest earned on accounts established under the respective HRB Resolutions, and any payments made to the Authority in connection with a claim under FHA mortgage insurance; (ii) the respective mortgage notes and related mortgages from the Housing Company; and (iii) the amounts in accounts established under the respective HRB Resolutions.

The prepayment of the Housing Company's mortgage loans along with other funds held in the Housing Bond Resolutions were used to defease all the HRBs outstanding which were originally issued by the Authority to finance or refinance the loans. On April 27, 2005, the \$91,355,000 HRBs outstanding (including \$7,930,000 1982 HRB, \$10,730,000 1984 HRB, and \$72,695,000 1993 HRB) were defeased and are no longer liabilities of the Authority. On June 1, 2005, all HRBs were redeemed and are no longer outstanding.

**(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

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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. The \$101 million provided for the transfer to the City at fiscal year ended October 31, 2004 was paid in June 2005. A provision in the amount of \$107.2 million has been charged to operations for the fiscal year ended October 31, 2005, 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 \$43.8 million of fiscal year 2005 excess revenues 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, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Interest on mortgage notes	\$ —	605,635
Interest on swap agreements	865,051	411,956
Miscellaneous receivables	66,398	114,262
Rents receivable	1,306,868	686,884
Accrued rental income	<u>5,850,185</u>	<u>767,375</u>
 Total receivables	 8,088,502	 2,586,112
Less allowance for doubtful accounts	(152,931)	(168,959)
 Net receivables	 <u>\$ 7,935,571</u>	 <u>2,417,153</u>

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

Accounts payable and other liabilities at October 31, 2005 and 2004 comprise the following:

	<b>2005</b>	<b>2004</b>
Amounts due to vendors	\$ 6,322,827	10,951,916
Contract retention costs	2,663,103	2,386,194
Due to developers	80,000	35,000
Accrued payroll and benefits	550,441	549,975
Security and other deposits	19,737,563	12,295,696
Accrued legal settlement	<u>1,902,208</u>	<u>2,893,242</u>
<b>Total</b>	<b>\$ 31,256,142</b>	<b>29,112,023</b>

**(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 and, therefore, contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

2005	\$ 510,000
2004	208,984
2003	<u>191,186</u>
<b>Total</b>	<b>\$ 910,170</b>

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

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**(18) Commitments and Other Matters**

- (a) The Authority has entered into construction and other related contracts, having unexpended balances aggregating \$34,352,312 as of October 31, 2005.
- (b) The Authority rents office space in One World Financial Center, as well as community meeting space, field offices, and maintenance space in condominium buildings in Battery Park City. Total rent expense amounted to approximately \$2 million and \$1.8 million for the fiscal years ended October 31, 2005 and 2004, respectively.
- (c) The terrorist attack on the World Trade Center on September 11, 2001 destroyed the North Bridge and severely damaged the South Bridge owned by BPCA. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, the insurance monies will be paid into a fund by March 15, 2006, jointly controlled by BPCA and the management team of the World Financial Center (Brookfield Financial Properties, American Express Company, and Merrill Lynch & Co.) for the purpose of ensuring access into Battery Park City from whatever connection may be built from the World Trade Center site and for the purpose of restoring the South Bridge. These funds are not recorded as assets of the Authority in the accompanying balance sheets.
- (d) 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 was dissolved as a corporation on August 1, 2005.
- (e) 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.
- (f) On January 13, 2006, the Governor signed into law the Public Authorities Accountability Act of 2005 (PAAA), which increases the size of the Authority's board from three to seven members, each of whom are to be appointed, as was previously the case, by the Governor with the advice and consent of the State Senate, and sets forth certain additional requirements with respect to responsibilities of the members. In addition, the PAAA, among other things, requires additional periodic reports to be prepared and distributed by the Authority with respect to specified operational and financial matters, and sets forth new requirements with respect to the disposition of property.
- (g) 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

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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, 2005, the Authority paid the Conservancy approximately \$6.4 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.

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 Authority sustained significant damage to portions of its real estate and civic facilities as a consequence of the Attack and its aftermath. In particular, the North Bridge was destroyed and the South Bridge severely damaged. After commencing suit against the insurers of the bridges to obtain funds for physical loss and damage to the North and South Bridges, a settlement was reached in the sum of \$38,000,000. Pursuant to a written agreement made in December 2005, insurance monies will be paid no later than March 15, 2006, into a fund jointly controlled by the Authority, BFP, American Express, and Merrill Lynch for the purpose of improving pedestrian access to the World Financial Center in Battery Park City and for the purpose of restoring the South Bridge. BFP, American Express, and Merrill Lynch have signed releases accepting the settlement amount from the insurer in full and final payment of all claims against the Authority arising from the Attack with regard to the North and South Bridges and certain other civic facilities.
- (c) A number of claims have been asserted against the Authority and others in State and Federal courts by cleaning contractor employees who worked in and around the World Trade Center site after the Attack (such employees and their representatives hereinafter referred to as "Plaintiffs"), some of whom were undertaking clean-up activities for ground lessees of the Authority and tenants of commercial and residential buildings in Battery Park City. Plaintiffs seek damages arising from the alleged failure of the Authority and others to adequately protect them against exposure to potential toxins. Most of these claims have been dismissed or discontinued with prejudice with respect to the Authority on account of procedural defects. The remaining claims are currently pending in Federal court. The Authority's ground leases provide for ground lessees to indemnify the Authority against

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certain claims. To date, BFP has declined to assume the defense of these claims due to the vagueness of the pleadings; certain claims may also be tendered to other ground lessees of the Authority. Furthermore, certain of the Authority's insurers have taken the position that their insurance policies for the applicable period do not cover such claims. Additional claims stemming from the clean-up efforts following the Attack may be asserted against the Authority in the future.

- (d) The boards of managers of several residential condominiums in Battery Park City (Petitioner Condominiums) 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 computed the amount of such abatements through June 30, 2005, as well as personal exemptions, totaling approximately \$12.7 million for all residential condominiums in Battery Park City that have submitted applications. The Authority is giving credits to Petitioner Condominiums of approximately \$8.5 million, the balance being 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, disputed the Authority's view that such credits would be fully offset by a corresponding increase 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 in December 2004, sustaining the position of the Authority.

