

Lower Manhattan Development Corporation
(a subsidiary of New York State Urban Development Corporation)

**ENTITY-WIDE STATEMENT OF NET ASSETS AND
GOVERNMENTAL GENERAL FUND BALANCE SHEET**

March 31, 2004

	<u>Governmental General Fund</u>	<u>Adjustments (Note C)</u>	<u>Entity-Wide Statement of Net Assets</u>
ASSETS			
Cash	\$ 7,816,765	\$ -	\$ 7,816,765
Due from other governments	14,661,429	233,002	14,894,431
Prepaid items and deposits	-	135,848	135,848
Capital assets, net of accumulated depreciation	<u>-</u>	<u>623,928</u>	<u>623,928</u>
Total assets	<u>\$22,478,194</u>	<u>992,778</u>	<u>23,470,972</u>
LIABILITIES			
Residential Grant Program payable	\$13,355,435	-	13,355,435
Accounts payable and accrued liabilities	5,500,221	-	5,500,221
Salaries and fringe benefits payable	14,423	233,002	247,425
Payable to New York State Urban Development Corporation	<u>3,357,871</u>	<u>-</u>	<u>3,357,871</u>
Total liabilities	<u>22,227,950</u>	<u>233,002</u>	<u>22,460,952</u>
FUND BALANCE/NET ASSETS			
Fund balance			
Unreserved	<u>250,244</u>	<u>(250,244)</u>	-
Total liabilities and fund balance	<u>\$22,478,194</u>		
Net assets			
Invested in capital assets		623,928	623,928
Restricted for Federal programs		135,848	135,848
Unrestricted		<u>250,244</u>	<u>250,244</u>
Total net assets		<u>\$ 1,010,020</u>	<u>\$ 1,010,020</u>

The accompanying notes are an integral part of these statements.

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**ENTITY-WIDE STATEMENT OF ACTIVITIES AND
GOVERNMENTAL GENERAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

For the year ended March 31, 2004

	<u>Governmental General Fund</u>	<u>Adjustments (Note C)</u>	<u>Entity-Wide Statement of Activities</u>
Revenues			
Intergovernmental grants	\$326,336,766	\$ 130,631	\$326,467,397
Other revenue	250,659	-	250,659
Interest	<u>11,337</u>	<u>-</u>	<u>11,337</u>
Total revenues	<u>326,598,762</u>	<u>130,631</u>	<u>326,729,393</u>
Expenditures/expenses			
Residential Grant Program	107,423,434	-	107,423,434
Business Recovery Grant Program	70,643,283	-	70,643,283
Employee Training Assistance Grant Program	200,014	-	200,014
Job Creation and Retention Grant Program	39,487,770	-	39,487,770
Utility Restoration and Infrastructure Rebuild Grant Program	45,489,325	-	45,489,325
Disproportionate Loss of Workforce Grant Program	30,491,810	-	30,491,810
West Street Pedestrian Connections Program	5,815,972	-	5,815,972
Lower Manhattan Communication Outreach Program	380,000	-	380,000
Program administration and planning	26,277,549	130,631	26,408,180
Depreciation	-	445,764	445,764
Capital outlay	<u>139,361</u>	<u>(139,361)</u>	<u>-</u>
Total expenditures/expenses	<u>326,348,518</u>	<u>437,034</u>	<u>326,785,552</u>
Excess (deficiency) of revenues over expenditures	250,244	(306,403)	(56,159)
Fund balance/net assets			
Beginning of year	<u>-</u>	<u>1,066,179</u>	<u>1,066,179</u>
End of year	<u>\$ 250,244</u>	<u>\$ 759,776</u>	<u>\$ 1,010,020</u>

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

March 31, 2004

NOTE A - ORGANIZATION

The Lower Manhattan Development Corporation (the "Corporation" or "LMDC") was created in the aftermath of September 11, 2001 by the Governor of New York State and the Mayor of New York City to help plan and coordinate the rebuilding and revitalization of Lower Manhattan. LMDC activities and programs are funded through Congressional appropriations administered by the United States Department of Housing and Urban Development ("HUD"), as part of its Community Development Block Grant Program (Note E).

The Corporation is governed by a sixteen-member board of directors, half appointed by the Governor of New York State and half by the Mayor of the City of New York. The Corporation's board of directors has the power to authorize the Corporation's budget and approve selection of management personnel, the ability to significantly influence operations, and primary accountability for fiscal matters. The Corporation was formed as a subsidiary of the New York State Urban Development Corporation ("UDC"), and as such, its financial statements are included as a component unit in the financial statements of UDC. UDC is a corporate governmental agency of the State of New York constituting a political subdivision and a public benefit corporation. The Corporation is exempt from New York State franchise tax and Federal income tax under provisions of Section 22 of the New York State Urban Development Corporation Act and Section 115 of the Internal Revenue Code.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of LMDC have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental units. The more significant of the Corporation's accounting policies are summarized below.

1. Entity-wide and Governmental Fund-level Financial Statements

The Corporation is a single program government entity engaged only in governmental activities and has no component units. The Corporation's financial statements are presented on a combined basis to facilitate financial analysis. The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) are designed to report information on all of the economic activities of the Corporation. The governmental fund financial statements, which consist of the General Fund's balance sheet and statement of revenues, expenditures and changes in fund balance, are designed to present the flow of financial resources of the Corporation.

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NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2004

NOTE B (continued)

2. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all requirements imposed by the provider have been met. Fixed assets are reported as assets, net of accumulated depreciation, in the Statement of Net Assets. Depreciation on fixed assets is reported as an expense in the Statement of Activities.

The governmental General Fund's Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as those related to compensated absences are recorded only when payment is due. Grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. Amounts paid for fixed assets are reported as capital outlay expenditures in the governmental General Fund financial statements.

3. *Due From Other Governments*

Due from other governments consists of amounts due from other governments for reimbursements under grant programs.

4. *Prepaid Items and Deposits*

Certain prepaid items and deposits are not considered to be currently available financial resources, and, accordingly, have been recorded as expenditures in the governmental General Fund. Prepaid items and deposits are recorded as assets in the entity-wide Statement of Net Assets since these amounts will benefit future years or will be refunded in future years.

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NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2004

NOTE B (continued)

5. *Fixed Assets*

Purchases of fixed assets are recorded as capital outlay expenditures in the governmental General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Fixed assets with a cost of more than \$2,500 are recorded in the entity-wide Statement of Net Assets and depreciated over their estimated useful lives in the entity-wide Statement of Activities. Fixed assets are depreciated using the straight-line method over the following useful lives:

Furniture and fixtures	5 years
Equipment	5 years
Leasehold improvements	2 years

6. *Compensated Absences Payable*

It is the Corporation's policy to permit employees to accumulate earned but unused vacation benefits. Vacation benefits are recorded as an expenditure when paid in the governmental General Fund. Vacation pay is accrued when earned in the entity-wide Statement of Net Assets and the Statement of Activities.

7. *Fund Balance/Net Assets*

In the governmental General Fund, fund equity is reported as fund balance. Reservations of fund balance, if any, reflect amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There was no reserved or designated governmental General Fund balance at March 31, 2004.

In the entity-wide Statement of Net Assets, equity is referred to as "Net assets." At March 31, 2004, net assets consisted of amounts invested in capital assets, amounts restricted for program activities and unrestricted balances.

8. *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the period. Actual results could differ from those estimates.

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NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2004

**NOTE C - RECONCILIATION OF GOVERNMENTAL GENERAL FUND STATEMENTS
TO ENTITY-WIDE STATEMENT OF NET ASSETS AND STATEMENT OF
ACTIVITIES**

Adjustments to reflect differences between the governmental General Fund statements and the entity-wide statements are as follows:

General Fund, fund balance	\$ 250,244
Grant revenue due from other governments	233,002
Prepaid items and deposits	135,848
Capital assets are expensed in the General Fund when purchased and are capitalized and depreciated in the Statement of Net Assets and Statement of Activities	
Cost of capital assets, net of accumulated depreciation	623,928
Non-current compensated absences payable	<u>(233,002)</u>
 Entity-wide net assets	 <u>\$1,010,020</u>
 General Fund revenues over expenditures	 \$ 250,244
Increase in accrual for grant revenue	130,631
Increase in accrual for non-current compensated absences payable	(130,631)
Capital assets are expensed in the General Fund when purchased and are capitalized and depreciated in the Statement of Net Assets and Statement of Activities	
Capital outlay	139,361
Depreciation expense	<u>(445,764)</u>
 Entity-wide expenses over revenues	 <u>\$ (56,159)</u>

NOTE D - BANK DEPOSITS

At March 31, 2004, the Corporation's cash balance consisted of deposits held at two major financial institutions. Bank deposits up to \$100,000 per financial institution are insured by the Federal Deposit Insurance Corporation. At March 31, 2004, the carrying amount of bank deposits was approximately \$7,817,000, which is the same as the bank balances. The Corporation's bank deposits in excess of insured amounts were collateralized with obligations of the United States or its agencies held by custodians in UDC's name.

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NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2004

NOTE E - DUE FROM OTHER GOVERNMENTS

Due from other governments consists of grant reimbursements due from HUD. Additionally, the Corporation's activities and programs are funded through the \$2.783 billion Congressional appropriations administered by HUD. As of March 31, 2004, unused appropriations were as follows (in billions):

Unused Congressional appropriations - March 31, 2003	\$ 2.541
Total funds expended	<u>(0.326)</u>
Unused Congressional appropriations - March 31, 2004	<u>\$ 2.215</u>

NOTE F - CAPITAL ASSETS

Changes in capital assets during the year ended March 31, 2004 are as follows:

	<u>Balance March 31, 2003</u>	<u>Additions</u>	<u>Balance March 31, 2004</u>
Furniture and fixtures	\$ 102,297	\$ 44,754	\$ 147,051
Equipment	345,222	63,490	408,712
Leasehold improvements	<u>705,437</u>	<u>31,117</u>	<u>736,554</u>
	1,152,956	139,361	1,292,317
Less accumulated depreciation	<u>(222,625)</u>	<u>(445,764)</u>	<u>(668,389)</u>
	<u>\$ 930,331</u>	<u>\$(306,403)</u>	<u>\$ 623,928</u>

NOTE G - NONMONETARY TRANSACTIONS

The Corporation receives, at no cost, certain accounting and administrative services from UDC. The value of these services is not known and is not recorded as revenues and expenditures in these financial statements, but is considered by management to be immaterial. At March 31, 2004, LMDC has a payable to UDC in the amount of \$3,357,871 which represents disbursements made by UDC on the Corporation's behalf.

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NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2004

NOTE H - RETIREMENT PLANS

Deferred Compensation Plan and Post-Retirement Benefits

Some employees of LMDC have elected to participate in New York State's deferred compensation plan in accordance with Internal Revenue Code 457. Continued health insurance coverage is the only post-retirement benefit provided to LMDC employees by New York State. LMDC has no liability related to these plans.

State Employees' Retirement System

LMDC participates in the New York State and Local Employees' Retirement System (the "System"), which is a multiple public employer cost-sharing system. The System offers a wide range of plans and benefits, which are related to years of service and final average salary, and provides for death and disability benefits and for optional methods of benefit payments. All benefits generally vest after five years of credited service.

The Comptroller of the State of New York serves as sole trustee and administrative head of the System. Plan benefits are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed by the State Constitution. Once a public employer elects to participate in the System, the election is irrevocable. The Plan cannot be terminated and Plan benefits cannot be diminished or impaired. Benefits can be reduced for future members only by an act of the State Legislature.

Participating employers are required under the New York State Retirement and Social Security Law to contribute annually to the System. The funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the New York State Retirement and Social Security Law. The aggregate actuarial funding method is used by the System. Generally, participating employers that have adopted the same benefit plans contribute at the same rate of pay. Generally, all employees, except certain part-time employees, participate in the System. The Corporation's participating employees are included in the System under UDC. UDC is billed annually for contributions and allocates to LMDC its share based on head count. LMDC's contributions totaled \$141,916 for the year ended March 31, 2004.

Lower Manhattan Development Corporation
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NOTES TO FINANCIAL STATEMENTS (continued)

March 31, 2004

NOTE I - LEASE COMMITMENT

The Corporation is obligated under a noncancellable operating lease for office space through February 2005. Rent expense under this lease was approximately \$498,000 for the year ended March 31, 2004. Future aggregate minimum rent due under this lease is approximately \$475,000 for the year ending March 31, 2005.

NOTE J - CONTINGENCIES

The Corporation's activities are funded by HUD, and are governed by various rules and regulations. Costs charged to the HUD grant program are subject to audit and adjustment by HUD; therefore, to the extent that the Corporation has not complied with the rules and regulations governing the grant, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the Corporation's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the HUD grant; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.