

THE BATTERY CONSERVANCY, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

DECEMBER 31, 2008 AND 2007

THE BATTERY CONSERVANCY, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-12
Additional Information	
Independent Auditor's Report on Additional Information	14
Schedule of Functional Expenses	15



LUZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The Battery Conservancy, Inc.

We have audited the accompanying statements of financial position of The Battery Conservancy, Inc. (a not-for-profit corporation) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Battery Conservancy, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
March 31, 2009

THE BATTERY CONSERVANCY, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents (Notes 1b and 3)		
Unrestricted	\$ 1,902,546	\$ 1,517,287
Board designated (Note 2a)	1,011,788	1,011,788
Permanently restricted (Note 2c)	<u>90,000</u>	<u>90,000</u>
	3,004,334	2,619,075
Investments (Notes 1c and 4)		
Unrestricted	1,674,175	1,998,972
Temporarily restricted	3,258,354	3,704,144
Unconditional promises to give (Notes 1d and 5)		
Restricted to specific programs and periods	2,406,868	870,202
Prepaid expenses	25,278	35,948
Property and equipment, at cost, net of accumulated depreciation (Notes 1e and 6)	1,908,121	821,243
Reimbursable advances (Note 7)	513,852	521,206
Security deposit	<u>7,542</u>	<u>7,542</u>
Total Assets	<u><u>\$12,798,524</u></u>	<u><u>\$10,578,332</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 239,822</u>	<u>\$ 54,574</u>
Commitments and Contingencies (Note 8)		
Net Assets		
Unrestricted		
Board designated (Note 2a)	1,011,788	1,011,788
Other	<u>5,791,692</u>	<u>4,847,624</u>
Total Unrestricted	6,803,480	5,859,412
Temporarily restricted (Note 2b)	5,665,222	4,574,346
Permanently restricted (Note 2c)	<u>90,000</u>	<u>90,000</u>
Total Net Assets	<u>12,558,702</u>	<u>10,523,758</u>
Total Liabilities and Net Assets	<u><u>\$12,798,524</u></u>	<u><u>\$10,578,332</u></u>

See notes to financial statements.

THE BATTERY CONSERVANCY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Changes in Unrestricted Net Assets		
Revenues, Gains and Other Support		
Contributions	\$ 668,885	\$ 469,512
Fundraising benefits	1,223,468	1,063,871
Less: Direct costs benefiting donors	(173,191)	(139,203)
Donated services and use of facilities (Note 9)	562,527	358,212
Database income	31,152	18,300
Royalties	423	614
Net investment income (loss) (Note 4)	(941,182)	169,915
Miscellaneous income	9,106	21,773
	<u>1,381,188</u>	<u>1,962,994</u>
Net assets released from restriction		
Satisfaction of time and program restrictions	<u>1,701,313</u>	<u>171,256</u>
Total Unrestricted Revenues, Gains and Other Support	<u>3,082,501</u>	<u>2,134,250</u>
Expenses		
Program Services		
Battery Park Programs	<u>1,243,172</u>	<u>1,178,368</u>
Supporting Services		
Management and general	210,283	274,452
Fundraising	224,380	154,568
Total Supporting Services	<u>434,663</u>	<u>429,020</u>
Total Expenses	<u>1,677,835</u>	<u>1,607,388</u>
Increase in unrestricted net assets, prior to donated legal services	1,404,666	526,862
Donated legal services	<u>(460,598)</u>	<u>(256,286)</u>
Increase in Unrestricted Net Assets	<u>944,068</u>	<u>270,576</u>
Changes in Temporarily Restricted Net Assets		
Contributions	2,792,189	2,481,704
Net assets released from restriction	<u>(1,701,313)</u>	<u>(171,256)</u>
Increase in Temporarily Restricted Net Assets	<u>1,090,876</u>	<u>2,310,448</u>
Increase in net assets	2,034,944	2,581,024
Net assets, beginning of year	<u>10,523,758</u>	<u>7,942,734</u>
Net Assets, End of Year	<u><u>\$12,558,702</u></u>	<u><u>\$10,523,758</u></u>

See notes to financial statements.

THE BATTERY CONSERVANCY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 2,034,944	\$ 2,581,024
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	95,642	94,982
Realized loss on sale of investments	624,751	-
Unrealized loss on investments	510,173	251,167
Donated stock	(106,654)	-
(Increase) decrease in:		
Unconditional promises to give	(1,536,666)	50,891
Prepaid expenses	10,670	(3,841)
Increase in accounts payable and accrued expenses	185,248	11,263
Net Cash Provided By Operating Activities	<u>1,818,108</u>	<u>2,985,486</u>
Cash Flows From Investing Activities		
Additions to property and equipment and reimbursable advances	(1,175,166)	(206,355)
Proceeds from sale of securities	7,103,767	-
Purchase of securities	<u>(7,361,450)</u>	<u>(2,565,824)</u>
Net Cash Used By Investing Activities	<u>(1,432,849)</u>	<u>(2,772,179)</u>
Net increase in cash and cash equivalents	385,259	213,307
Cash and cash equivalents, beginning of year	<u>2,619,075</u>	<u>2,405,768</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,004,334</u>	<u>\$ 2,619,075</u>

See notes to financial statements.

THE BATTERY CONSERVANCY, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2008 AND 2007****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Battery Conservancy, Inc. (the "Organization") is a not-for-profit corporation which was formed May 6, 1994 to restore and revitalize Manhattan's Historic Battery Park and Castle Clinton National Monument, the park's major landmark.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments, with an initial maturity of three months or less, to be cash equivalents, except for cash equivalents held in the Organization's investment portfolio.

c - Investments

Investments are carried at fair value based on quoted market values and investment transactions are accounted for as of the trade dates. Realized gains and losses are based on the average cost of investments sold. Dividend income is recorded on ex-dividend dates. Changes in unrealized appreciation are reported in the statement of activities.

The Organization adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157") effective January 1, 2008.

SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Under SFAS 157, fair value measurements are not adjusted for transaction costs. SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization.
- Level 3 Unobservable inputs. Unobservable inputs reflect the assumptions that the General Partner or Investment Manager of Archstone Partnerships develops based on available information about what market participants would use in valuing the asset or liability.

THE BATTERY CONSERVANCY, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2008 AND 2007****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Investments (continued)**

The values assigned to investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. Furthermore, the ultimate realization of such amounts depend on future events and circumstances and therefore valuation estimates may differ from the value realized upon disposition of individual positions.

d - Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

e - Property and Equipment

Property and equipment are recorded at cost, and are being depreciated using the straight-line method over the estimated useful life of the asset.

Donated items are capitalized at the estimated fair value at the date of the gift and are depreciated over their estimated useful lives.

f - Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

g - Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

h - Tax Status

The Battery Conservancy, Inc. is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

THE BATTERY CONSERVANCY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

Note 2 - Restrictions on Assets

a - Board Designated

A portion of this fund was designated by the Board to be used to support the operation and staffing of the Harbor Park Visitor Center. In November 1999, the Board approved to re-designate the funds to the *River that Flows Two Ways* public art project in the amount of \$48,032. The art project was completed in 2000, therefore, \$48,032 was transferred to the endowment (Note 2c). The balance of the Board designated fund as of December 31, 2008 and 2007 was \$11,788.

In April 2002, the Organization received an unrestricted grant of \$1,000,000 from the Verizon Foundation. The Board of Directors resolved that this gift be established as a board designated endowment fund and that the earnings be used to maintain year-round gardens along the Battery Waterfront at the tip of Manhattan.

b - Temporarily Restricted

Temporarily restricted net assets at December 31, 2008 are restricted to specific programs and are expected to be released from restriction as follows:

<u>Year Ending December 31,</u>	
2009	\$4,597,385
2010	482,837
2011	<u>585,000</u>
	<u>\$5,665,222</u>

c - Permanently Restricted

As part of the art project, the *River that Flows Two Ways*, the Organization was required by the City of New York Parks Recreation to establish a \$90,000 fund dedicated for the care of the artwork. The fund is to guarantee regular, annual financial support for any necessary repairs, maintenance and general upkeep.

Note 3 - Concentration of Credit Risk

The Organization maintains its cash balances at a bank located in New York, New York.

THE BATTERY CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Note 4 - Investments

Investments and fair value hierarchy are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Fair Market Value</u>	<u>Cost</u>	<u>Fair Market Value</u>	<u>Cost</u>
Archstone Partnerships (Fund of funds - Level 3)	\$ 798,350	\$1,000,000	\$ -	\$ -
Neuberger Equities (Level 1)	603,456	1,014,144	-	-
Mutual Funds (Level 1)				
Vanguard Short Term - Treasury	910,305	895,187	-	-
Fidelity U.S. Bond Index	-	-	1,316,025	1,295,076
Fidelity Value	-	-	1,301,927	1,383,540
Vanguard Intermediate - Term Investment	-	-	1,012,471	987,268
Vanguard Mid-Cap Index	-	-	1,002,528	931,135
Vanguard Windsor	-	-	959,156	1,082,135
Cash Equivalents	<u>2,620,418</u>	<u>2,620,418</u>	<u>111,009</u>	<u>111,009</u>
	<u>\$4,932,529</u>	<u>\$5,529,749</u>	<u>\$5,703,116</u>	<u>\$5,790,163</u>

Net investment income (loss) consists of:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$200,212	\$427,315
Realized losses	(624,751)	-
Unrealized losses	<u>(510,173)</u>	<u>(251,167)</u>
	(934,712)	176,148
Less: Investment fees	<u>(6,470)</u>	<u>(6,233)</u>
Net Investment Income (Loss)	<u>\$(941,182)</u>	<u>\$169,915</u>

THE BATTERY CONSERVANCY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

Note 5 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>2008</u>	<u>2007</u>
Due in less than one year	\$2,224,031	\$495,000
Due in one to five years	<u>182,837</u>	<u>375,202</u>
	<u>\$2,406,868</u>	<u>\$870,202</u>

Uncollectible promises are expected to be insignificant. Unconditional promises to give due after one year are discounted to net present value using a discount rate of 4%.

Note 6 - Property and Equipment

Property and equipment consist of the following at December 31:

	<u>Life</u>	<u>2008</u>	<u>2007</u>
Computer equipment	3 years	\$ 278,141	\$ 272,572
Park furniture and equipment	5 years	20,786	20,786
Equipment - Castle Clinton	5 years	33,880	33,880
Leasehold improvements	5 years	191,392	191,392
Projects in progress	-	<u>1,813,531</u>	<u>636,580</u>
		2,337,730	1,155,210
Less: Accumulated depreciation		<u>(429,609)</u>	<u>(333,967)</u>
		<u>\$1,908,121</u>	<u>\$ 821,243</u>

Depreciation expense for the years ended December 31, 2008 and 2007 was \$95,642 and \$94,982, respectively.

THE BATTERY CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Note 7 - Reimbursable Advances

The Organization constructed two food kiosks within the Bosque Gardens in Battery Park, which it will operate and maintain under a license agreement with The City of New York's Department of Parks and Recreation ("DPR"). Under the agreement, the Organization also provides maintenance for the Gardens. The Organization will sublease the operations and maintenance of the kiosks to another vendor, and in accordance with the terms of the DPR license agreement, will be entitled to retain sublicensing revenue until the Organization recovers the amount of costs it incurred to construct the kiosks. The Organization anticipates the recovery period to be several years. After recovering the construction costs, the Organization will remit DPR the amount of annual sublicensing revenue which exceeds the lesser of \$280,000 or its actual annual garden maintenance costs.

Note 8 - Commitments and Contingencies

- a - In 1996 the Organization entered into a Memorandum of Intent to document the mutual commitment to further the partnership the Organization and the National Park Service to implement the park's 1997 General Management Plan's preferred alternative to rehabilitate and adaptively reuse Castle Clinton National Monument as a year-round ticketing, visitor, and interpretive services and performing arts facility. This Memorandum of Intent completes the Initial phase of the Partnership Construction Process. Priority actions have been agreed upon for the subsequent Definition and Agreement which will require additional approval.
- b - The Organization was obligated under the terms of a lease for office space through June 30, 2005. Beginning July 2005, a revised lease took effect for expanded new office space. The new monthly rent is \$7,306 through June 30, 2010. The landlord's affiliate agreed to make a charitable contribution to the Organization of \$4,384 per month for the entire term of the lease.

The Organization's future minimum rental obligation under the lease, net of the landlord's contribution, is as follows:

<u>Year Ending December 31,</u>	
2009	\$35,070
Through June 30, 2010	17,535

THE BATTERY CONSERVANCY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Note 8 - Commitments and Contingencies (continued)

c - The Organization has entered into a Memorandum of Understanding with the New York City Economic Development Corporation ("EDC") to act as administrator and agent over awarded federal funds for the development of a feasibility study and the construction of improvements at Castle Clinton (the "Project"). The total Project cost is currently estimated at \$65,000,000. The Organization is obligated to raise \$2,000,000 to match the federal budgeted amount of \$8,000,000. As of December 31, 2008, the Organization had raised and spent \$437,140 for the design, engineering and related services for the Project.

The Organization agreed to be solely responsible for and shall defend, indemnify and hold harmless EDC and the City from all claims, judgments and liabilities for injuries to persons and damage to property, on account of any negligent act, omission, fault or default of the Organization, its agents, employees, servants, and subcontractors with respect to any matter whatsoever in connection with this agreement.

d - The Battery Conservancy, Inc. is involved in a lawsuit stemming from a complaint by a former consultant alleging copyright infringement, breach of contract and other causes of action. In the complaint, the plaintiff seeks to prevent the Organization from completing its Carousel project without the plaintiff's participation as well as compensatory, statutory, and punitive damages. On March 30, 2009, the Court granted the Organization's motion for judgment on the pleadings and dismissed all of the claims against the Organization. The plaintiff has thirty days from the entry of the judgment to appeal the dismissal of the claims. The Organization's counterclaim against the plaintiff, for non-performance of work for which she was paid in advance, remains pending. The Organization's counsel is unable to predict the likelihood of an appeal or of an adverse outcome in any such appeal or the potential exposure to the Organization in the event the Organization does not ultimately prevail.

Note 9 - Donated Services and Use of Facilities

During the years ended December 31, 2008 and 2007, the Organization received the following donated services and use of facilities:

	<u>2008</u>	<u>2007</u>
Legal fees	\$460,598	\$256,286
Rent	<u>101,929</u>	<u>101,926</u>
	<u>\$562,527</u>	<u>\$358,212</u>

The above amounts have been reflected in the financial statements using fair values provided by the donors.

THE BATTERY CONSERVANCY, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2008 AND 2007****Note 10 - Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and the supporting services.

ADDITIONAL INFORMATION



LUZ AND CARR

CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

To the Board of Trustees of
The Battery Conservancy, Inc.

Our report on our audits of the basic financial statements of The Battery Conservancy, Inc. for 2008 and 2007 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended December 31, 2008 with comparative totals for 2007 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
March 31, 2009

THE BATTERY CONSERVANCY, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2008 WITH COMPARATIVE TOTALS FOR 2007

	Program Services	Supporting Services		2008	2007	
	Battery Park Programs	Management and General	Fundraising	Total	Total Expenses	
Salaries	\$ 603,852	\$ 50,688	\$ 79,258	\$129,946	\$ 733,798	\$ 730,833
Payroll taxes	46,222	3,880	6,067	9,947	56,169	55,918
Employee benefits	123,139	10,336	16,163	26,499	149,638	95,461
Signage	-	-	-	-	-	1,600
Staff development	-	-	-	-	-	8,548
Park maintenance	142,646	-	595	595	143,241	80,090
Architect fees	39,196	-	-	-	39,196	-
Consultants	186,821	363,527	50,615	414,142	600,963	402,999
Telephone	9,644	5,165	-	5,165	14,809	13,712
Advertising and promotion	16,849	333	6,513	6,846	23,695	63,088
Office supplies	19,796	1,662	2,598	4,260	24,056	30,255
Postage, mailing and delivery	5,556	466	730	1,196	6,752	7,003
Insurance	11,458	962	1,504	2,466	13,924	11,496
Indirect benefit expenses	-	-	42,122	42,122	42,122	57,986
Travel and entertainment	6,338	2,305	819	3,124	9,462	22,242
Accounting	-	23,844	-	23,844	23,844	32,714
Occupancy	117,743	9,884	15,454	25,338	143,081	142,471
Bad debt expense	-	-	-	-	-	4,500
Miscellaneous expense	5,382	10,717	1,942	12,659	18,041	7,776
Total expenses before depreciation	1,334,642	483,769	224,380	708,149	2,042,791	1,768,692
Depreciation	19,128	76,514	-	76,514	95,642	94,982
Total Expenses	1,353,770	560,283	224,380	784,663	2,138,433	1,863,674
Less: Donated legal services	(110,598)	(350,000)	-	(350,000)	(460,598)	(256,286)
Total Expenses Per the Statement of Activities, 2008	<u>\$ 1,243,172</u>	<u>\$ 210,283</u>	<u>\$ 224,380</u>	<u>\$434,663</u>	<u>\$1,677,835</u>	
Total Expenses Per the Statement of Activities, 2007	<u>\$ 1,178,368</u>	<u>\$ 274,452</u>	<u>\$ 154,568</u>	<u>\$429,020</u>		<u>\$1,607,388</u>

See independent auditor's report on additional information.