AUDIT REPORT

CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of Astoria Studios Limited Partnership II With Its Lease Agreement

FM06-115A

June 29, 2007

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, §93, of the New York City Charter, my office has audited the compliance of Astoria Studios Limited Partnership II (Astoria) with the terms of its agreement with the New York City Economic Development Corporation.

Under the provisions of the agreement, Astoria is required to pay the City base rent, tax rent, and a percentage of net income as additional rent for the exclusive use of a motion picture and television studio in Astoria, Queens. We audit private concerns under contract with the City such as this to ensure that they comply with the terms of their agreements, properly report revenue, and pay all fees due the City.

The results of our audit, which are presented in this report, have been discussed with Astoria and EDC officials, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@Comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

William C. Thompson, Jr.

William C. Thompson, Jr.

WCT/fh

Report: FM06-115A
Filed: June 29, 2007

Table of Contents

The City of New York
Office of the Comptroller
Bureau of Financial Audit

Audit Report on the Compliance of Astoria Studios Limited Partnership II With Its Lease Agreement

FM06-115A

AUDIT REPORT IN BRIEF

This audit determined whether Astoria Studio Limited Partnership II (Astoria) accurately reported its net income, paid all rent due, and complied with certain major non-revenue terms of the lease agreement.

On September 1, 1982, the City of New York entered into a lease agreement with Astoria Studios Inc., through the City's Public Development Corporation, now known as the Economic Development Corporation (EDC), to restore, expand, and manage motion picture and television studios in Astoria, Queens. The lease was assigned to Astoria on November 27, 1985.

Astoria generates most of its operating revenues from leasing offices and stages at the Astoria Studios to film industries and commercial businesses. In calendar year 2005, Astoria generated approximately $6.9 million in revenues and reported a net loss of $3.2 million; net income is the basis for ascertaining additional rent due the City, as defined by the lease agreement. EDC is responsible for overseeing the lease agreement.

For calendar year 2005, the lease agreement requires Astoria to pay the City $350,004 in base rent and $645,643 in tax rent. The agreement also requires Astoria to pay an additional rent equivalent to 17.5 percent of net income. The additional rent is payable within 120 days after the end of each year.

Audit Findings and Conclusions

Astoria paid all rents due in a timely manner and maintained sufficient insurance coverage. However, Astoria underreported its net income by $591,704. The underreporting was the result of reporting improper deductions and by including administrative expenses pertaining to other businesses and attributing them to the Astoria Studios. Since Astoria reported a net loss of $3.2 million on its schedule of Calculation of Additional Rent submitted to EDC, the underreported net income did not result in any additional rents due the City. In addition, Astoria did not pay water and sewer charges since 1995, or name the City and EDC as additional insureds under its excess liability policy as require; nor did it submit audited financial statements and additional-rent-due calculations to EDC in a timely manner.

Audit Recommendations

The audit recommended that Astoria should:

- Accurately calculate net income and additional rent payments in accordance with the terms of the lease agreement.
- Develop a formalized method of allocating administrative expenses incurred by Kaufman Astoria Studios Inc. (KASI) for managing the Astoria Studios.
- Maintain documentation to support the allocation of administrative expenses incurred by KASI.
- Ensure that any retroactive and subsequent water and sewer charges are promptly paid.
- Ensure that all liability insurance policies continue to name the City and EDC as additional insureds.
- Submit audited financial statements and additional rent calculation to EDC within 120 days from the close of its fiscal year.

EDC should:

- Review the allocation method developed by KASI to ensure its administrative expenses are properly allocated to Astoria Studios.
- Ensure that Astoria complies with the recommendations in this report.

INTRODUCTION

Background

On September 1, 1982, the City of New York entered into a lease agreement with Astoria Studios Inc., through the City's Public Development Corporation, now known as the Economic Development Corporation (EDC). The purpose of the agreement is to restore, expand, and manage motion picture and television studios in Astoria, Queens. The lease agreement was subsequently assigned to Astoria Studios Limited Partnership on September 22, 1982, and then to Astoria Studios Limited Partnership II (Astoria) on November 27, 1985. The agreement will expire in calendar year 2049.

Astoria generates most of its operating revenues from leasing offices and stages at the Astoria Studios to film industries and commercial businesses. In calendar year 2005, Astoria generated approximately $6.9 million in revenues and reported a net loss of $3.2 million. Net income is the basis for ascertaining additional rent due the City, as defined by the lease agreement. EDC is responsible for overseeing the lease agreement.

For calendar year 2005, the lease agreement requires Astoria to pay the City $350,004 in base rent (payable in 12 monthly installments) and $645,643 in tax rent, which is billed quarterly by the Department of Finance. The agreement also requires Astoria to pay an additional rent equivalent to 17.5 percent of net income. The additional rent is payable within 120 days after the end of each year.

Objectives

The audit's objectives were to determine whether Astoria:

- accurately reported its net income and paid all rent due under the lease agreement; and

- complied with certain major non-revenue terms of the lease agreement (i.e., maintained proper insurance and paid water and sewer charges).

Scope and Methodology

The scope period of the audit was calendar year 2005. To achieve our objectives, we reviewed and abstracted the lease agreement and its amendments. We also interviewed EDC officials to understand their respective roles in monitoring compliance with the terms of the agreement and collection of the rents due.

To obtain an understanding of Astoria's operations and internal controls over its operations, we interviewed the controller, catering manager, stage manager, and accounting staffs. We also reviewed Astoria's accounting procedures, conducted a walk-through of its operations, and observed the processing of billing and payment transactions through its accounting system (ACCPAC). We documented our understanding of the operations through written narratives.

To ensure that Astoria properly reported its revenues, we judgmentally selected December 2005, the month with the highest billing amount, for our audit testing. We examined the December invoices to determine whether each invoice was consecutively numbered and accounted for. We then reviewed the accuracy of the supporting documentation for miscellaneous charges (utilities, parking, and other service charges) and traced the invoiced amounts to the general ledger to determine whether all revenues were properly recorded. Finally, we reconciled all the checks to the deposit slips and the bank statements to determine whether all payments were properly deposited.

To determine whether all tenants had valid leases and whether the amounts billed by Astoria were accurate, we reviewed all 34 tenant leases and their supporting documentation.

To determine whether Astoria accurately reported "Other Than Personal Service" expenditures for calendar year 2005, we judgmentally selected the month of December 2005 (the month with the most revenue activity) and reviewed all 301 transactions totaling $988,293—14 percent of the $7.1 million expended. We traced the expenditures from the general ledger to the general journals and then to the source documents (invoices, purchase orders, check stubs and bank statements).

To ensure that payroll expenses were accurately reported, we again judgmentally selected December 2005 as our sample period. We compared the payroll expenditures from payroll summary and payroll register reports to the payroll expenditures in the general ledger. In addition, we obtained and reviewed the employees' timesheets to check whether all timesheets were properly approved and work hours stated in the timesheets were consistent with the hours stated in the payroll register report. In addition, we reviewed employees' personnel files to determine whether employees were paid in accordance with their personnel records.

To assess the accuracy of Astoria's consolidated financial statements, we traced the revenues and expenses from the trial balance to the financial statements. In addition, we reviewed the worksheets and the underlying supporting documentation (managing agreement, mortgage agreement, partnership agreements, and partners' investment files) used for calculating the additional rent to determine whether Astoria accurately calculated the additional rent due.

We obtained the canceled checks for all rent payments and determined whether base and tax rents were paid on time and the amounts paid were accurate in accordance with the terms of the lease agreement.

We determined whether the required insurance policies were active and the coverage amounts complied with the terms of the lease agreement. We reviewed billing records for Astoria water and sewer charges maintained by the Department of Environmental Protection to ascertain whether Astoria paid all the charges.

The results of our tests, while not projectable to all of Astoria's revenue and expenses, provided us a reasonable basis to evaluate the appropriateness of the amounts reported and the fees paid to the City.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with Astoria and EDC officials during and at the conclusion of this audit. A preliminary draft report was sent to these officials and discussed at an exit conference held on March 19, 2007. On March 30, 2007, we submitted a draft report to Astoria and EDC officials with a request for comments. On April 12, 2007, and April 20, 2007, we received written responses from EDC and Astoria officials, respectively.

Although Astoria agreed with certain aspects of our findings, it disagreed with the amounts of our audit exceptions and did not respond to any of the audit's recommendations.

EDC officials agreed with the audit's recommendations and stated that "EDC will ensure that Astoria Studios complies with the recommendations set forth in the audit report."

The specific issues raised by Astoria and our rebuttals are included within the relevant sections of this report. The full texts of the responses received from Astoria and EDC are included as addenda to this report.

FINDINGS

Astoria paid all rents due in a timely manner and maintained sufficient insurance coverage. However, Astoria underreported its net income (the basis for ascertaining additional rent payments due the City) by $591,704. This was due to reporting improper deductions and by including administrative expenses pertaining to other businesses and attributing them to the Astoria Studios. Since Astoria reported a net loss of $3.2 million on its schedule of Calculation of Additional Rent submitted to EDC, the underreported net income did not result in any additional rents due the City. In addition, Astoria did not pay water and sewer charges since 1995 or name the City and EDC as additional insureds under its excess liability policy, as required; nor did it submit audited financial statements and additional-rent-due calculations to EDC in a timely manner.

These issues are discussed in greater detail in the following sections of this report.

Improper Deductions and Exclusion Resulted in Underreported Net Income

Astoria did not properly calculate its net income, which is the basis for ascertaining the amount of the "additional rent" owed to the City, on its schedule of Calculation of Additional Rent. We identified the following improper deductions and exclusion to net income totaling $591,704:

- *$465,153 for excessive deductions of principal and interest*. The lease agreement permits Astoria to deduct from net income principal and interest for the permitted mortgage that does not exceed $13 million.[1] Since the mortgage exceeds $13 million, deductible principal and interest amounts must be pro-rated. Although Astoria's actual $19 million mortgage exceeded the $13 million threshold, it deducted from net income $1,472,984, the entire amount of the principal and interest. We calculated that the pro-rated amount of principal and interest that should have been deducted totaled $1,007,831—$465,153 less than what Astoria actually deducted.

- *$44,393 in unapproved financing charges*. Astoria improperly deducted interest payments to finance items such as a line of credit, construction loans, etc. According to the lease agreement, any amounts payable as interest on and the principal payments of all debts are excluded expenses and cannot be deducted when calculating net income. These deductions are not allowed unless Astoria obtains EDC's approval, as required by the lease agreement.

Astoria Response: "The $44,393 in finance charges are for normal and includable operating expenses. Furthermore, these finance charges are only excludable if the interest rate is greater than 13% as per the excluded expenses definition of the Lease."

[1] According to the seventh amendment of the lease agreement, the definition of a permitted mortgage is one mortgage or two mortgages collectively made by Astoria that do not exceed $20,000,000.

Auditor Comment: Astoria's position that all finance charges are normal operating expenses that can be deducted when calculating net income is not supported by the lease. The lease defines excludable expenses (those expenses that cannot be deducted when calculating net income) as any amounts payable as interest on and the principal payments of all debts other than the permitted and the UDAG (Urban Development Action Grant) mortgages. Consequently, those finance charges (i.e., lines of credit, construction loans, and installment payments of insurance premiums) deducted by Astoria when calculating net income are not allowed unless Astoria obtains EDC's approval.

- *$66,598 for a subsidiary's business expenses*. Astoria improperly deducted a subsidiary entity's (KAS Production Center) business expenses that did not pertain to the Astoria Studios. The lease agreement permits Astoria to deduct expenses that are "reasonable and necessary day-to-day cost and expenses in connection with the premises." However, the subsidiary's expenses, such as $60,090 in real estate tax and $1,000 in corporation tax, related to an off-premise facility cannot be deducted from net income.

- *$15,560 of miscellaneous income excluded*. Our review indicated that miscellaneous income generated through the ordinary operations of Astoria Studios was underreported. The lease agreement defined gross income as all income, revenue, and receipts from or with respect to the ownership, operation, and/or maintenance of the premises. Accordingly, that income should have been reported as operating income.

Astoria Comment: "Per our Financial Statements all income is reported. With regard to the Additional Rent Calculation there are allowable exclusions to revenue (i.e. insurance reimbursement for loss or damages) which have been shown."

Auditor Comment: Although the lease does allow for certain exclusions from income, Astoria did not provide adequate documentation to support its claim that the $15,560 in miscellaneous expenses should be excluded from income. Further, our review of Astoria's miscellaneous income account and available documentation found that the $15,010, or 96.5 percent of the $15,560 in miscellaneous income, was generated through the ordinary operations of Astoria Studios and should have been included in its calculation of net income and in its calculation of additional rent. Specifically, we found that $14,624 of the $15,560 was related to deferred income it received from a tenant in a prior period and recognized as income in 2005. In addition, Astoria billed a production company tenant $386 for photocopying services.

- *Improper allocation of expenses*. Under the terms of an agreement between Astoria and an affiliate entity, Kaufman Astoria Studio, Inc. (KASI), Astoria must reimburse KASI for all administrative expenses associated with managing the Astoria Studios. If KASI manages other businesses, it should charge Astoria only that portion of the expenses pertaining to the Astoria Studios. Our review found that KASI also manages other affiliated businesses (such as KAS Music and Sound, LLC and Studio

Annex), but charged Astoria for 100 percent of all KASI administrative expenses. Since Astoria does not allocate the KASI administrative expenses between the entities, we could not determine the amount that should have been charged to Astoria. Consequently, Astoria's net income was understated, which resulted in an incorrect calculation when ascertaining additional rent due.

Astoria Comment: "We disagree with the statement that KASI manages other affiliated businesses (such as KAS Music and Sound, LLC and Studio Annex, aka Media Realty Group) but charged Astoria for 100 percent of all the KASI administrative expenses. In fact, KAS Music and Sound, LLC has their own payroll and administrative expenses. Media Realty Group receives a monthly bill of approximately 3% as its share of the total KASI payroll expenses and has their own administrative expenses. (See Exhibit 1, billing to Media Realty Group.)"

Auditor Comment: While Astoria responded that Media Realty Group receives a monthly bill of approximately three percent as its share of KASI payroll expenses, it is unclear how Astoria arrived at this amount. Although Astoria provided an invoice with its response (see Addendum I, page 4) indicating that an "ALLOCATION OF PAYROLL RELATED EXPENSES—JAN 2005" totaling $3,750 existed between Astoria and Media Realty Group, it did not provide an explanation as to how this amount was determined. Had Astoria provided adequate documentation indicating how the allocation of expenses was determined, we may have allowed this deduction. In any case, we are pleased that EDC responded that it will continue to review and monitor the allocation method developed by KASI to ensure that its administrative expenses are properly allocated to Astoria Studios.

Since Astoria's calendar year 2005 income was offset by a reported loss of $3.2 million, the audit identified underreporting of $591,704 in net income did not result in any additional rents due the City. The subsequent years' operations, however, may not necessarily result in business losses. Therefore, to bring Astoria into compliance with the agreement, it must report income and expenses accurately on its schedule of Calculation of Additional Rent and calculate its net income in accordance with the lease agreement to ensure that it pays the City any associated additional rent payments.

Compliance Issues

Water and Sewer Use Not Paid

Astoria did not pay for water and sewer use since 1995 as required by the lease agreement. The failure to pay for water and sewer charges is attributed to Astoria's failure to contact the City's Department of Environmental Protection (DEP) and inquire as to why Astoria was no longer being billed for water and sewer use. According to §4.01 of the agreement, Astoria agrees to pay all water, water meter and sewer rents, rates, and charges.

After we reviewed Astoria's billing and payment history on DEP's Customer Information System, we found that Astoria's accounts were listed as City-owned and water and sewer bills were not being generated. Once we informed DEP of this problem, DEP dispatched an inspector to the property, tested the meters, and adjusted the billing information. Subsequently, DEP billed Astoria's account (No. 10005-25755-001) $135,237 for water and sewer use from April 21, 2002, to April 21, 2006. However, New York Water Board rules preclude DEP from billing customers for water and sewer use that is more than four years old. Accordingly, the City will be unable to recoup an estimated $200,610 in payments for Astoria's water and sewer use from 1995 to April 2002. It should be noted that Astoria paid the $135,237 billed in installments, the last payment being received by DEP on November 14, 2006.

DEP has been unable to generate additional water and sewer bills for a second Astoria account (No. 60005-25756-001) because the meters are inoperable. According to DEP, once new meters are installed, DEP will monitor Astoria's water and sewer use over a 45-day period and will generate a retroactive bill.

Notwithstanding these billing problems, Astoria was definitely aware of its obligation to pay for water and sewer use, as its general ledger contains deductions from net income for monthly water and sewer accruals. Although Astoria continued to deduct these charges, it did not attempt to obtain billing statements from DEP.

Astoria Comment: "It should be noted that Astoria paid the $135,237 billed in installments as allowed by DEP, the last payment for this invoice was received by DEP on November 14, 2006. All bills have since been paid in full and are current. . . . DEP has installed new meters for a second Astoria Account (No. 60005-25756-001) because the meters were found to be inoperable. DEP has since generated new billing which has been paid in full by Astoria in a timely manner."

Auditor Comment: Astoria's response concerning the installation of new meters for a second account, which subsequently would lead to Astoria receiving new bills and making full payments in a timely manner, is somewhat disingenuous. A May 25, 2007 e-mail received from a DEP representative informed us that "the meter exchanges are not completed. The exchange of meters at the Astoria Studios location is a more arduous process than originally portrayed. . . . It appears there are corrective measures that need to be taken by the property owner/operator before at least one or both of the remaining meters can be replaced. The property is used in manners far from the 1970-80's configuration of the original water system; retrofitting the meters to current use requires the cooperation of the studio management."

Once again, we question Astoria's intent to abide by the terms of its lease. We are extremely concerned that had we not contacted DEP directly, Astoria may not have resolved the issue affecting DEP's ability to generate an accurate water and sewer bill. To ensure that the corrective action is taken by Astoria, we forwarded DEP's May 25, 2007 e-mail to EDC and spoke with EDC officials who have assured us that they will address the issue.

Lack of Insurance Endorsement

Our review of Astoria's liability insurance policies indicated that the City and EDC were not endorsed as additional insured entities under the excess liability policy, as required by §7 of the lease agreement . Additional insured status is important in order to provide coverage for the City in the event of any insurance claim.

After the March 19, 2007 exit conference, Astoria officials provided a copy of its current insurance certificate indicating that the City and EDC are now named as additional insureds for general and excess liability.

> ***Astoria Comment***: "NYC and EDC were and are properly covered as additional insured, under the 'Umbrella' policy."

Late Submission of Financial Statements and Additional Rent Calculations

Astoria did not submit for calendar year 2005 audited financial statements and calculation of additional rent due EDC in a timely manner. Lease agreement §38.01 and §3.02 require Astoria to submit this documentation within 120 days after the end of each calendar year. However, Astoria did not submit the required documents until it received a letter from EDC dated August 30, 2006—242 days after the end of calendar year 2005. It should also be noted that EDC officials informed us that Astoria prior years' submissions were similarly late.

> ***Astoria Comment***: "ASLP II [Astoria Studio Limited Partnership II] has submitted draft audited financials to the City in a timely fashion. Generally, the response in the form of a Certificate of No Default by the City has taken four to six months and on occasion even longer. Our auditors cannot issue the final financials without this document from the City. Upon receipt from the City, ASLP II has submitted the final financials within 30 days."

> ***Auditor Comment***: According to the lease, Astoria is to submit audited financial statements and calculation of additional rent to EDC within 120 days after the end of each calendar year. The lease does not allow for the submission of "draft" financial statements pending EDC's issuance of a Certificate of No Default. Consequently, Astoria cannot shift blame to EDC for failing to issue a certificate that it is not legally required to issue.

RECOMMENDATIONS

Astoria should:

1. Accurately calculate net income and additional rent payments in accordance with the terms of the lease agreement.

2. Develop a formalized method of allocating administrative expenses incurred by Kaufman Astoria Studios Inc. (KASI) for managing the Astoria Studios.

3. Maintain documentation to support the allocation of administrative expenses incurred by KASI.

4. Ensure that any retroactive and subsequent water and sewer charges are promptly paid.

5. Ensure that all liability policies continue to name the City and EDC as additional insureds.

6. Submit audited financial statements and additional rent calculation to EDC within 120 days from the close of its fiscal year.

Astoria Response: Astoria officials did not response to the recommendations in the report.

EDC should:

7. Review the allocation method developed by KASI to ensure that its administrative expenses are properly allocated to Astoria Studios.

EDC Response: "EDC will continue to review and monitor the allocation method developed by KASI to ensure that its administrative expenses are properly allocated to Astoria Studios."

8. Ensure that Astoria complies with the recommendations in this report.

EDC Response: "EDC will ensure that Astoria Studios complies with the recommendations set forth in the audit report."

Astoria Studios Limited Partnership II

BY FACSIMILE and
DHL DELIVERY

April 19, 2007

Mr. John Graham
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

RE: Audit Repot on the Compliance of Astoria Studios Limited Partnership II with its Lease Agreement FM06-115A

Dear Mr. Graham,

We are in receipt of draft report dated March 30, 2007 related to the Astoria Studios Limited Partnership II ("Astoria") Lease Agreement and are submitting the following corrections and responses for you inclusion into the report.

1. Page 6 – Paragraph 1

3rd line ..... The dollar amount should be changed to $531,751.
5th line ..... Following the Dollar amount please add: ... ", however, this change had no effect on the overall rent calculation".

2. Page 6 – Paragraph 3

The total dollar amount should be $531,751 not $591,704

3. Page 6 – 2nd Bullet

The $44,393 in finance charges are for normal and includable operating expenses. Furthermore, these finance charges are only excludable if the interest rate is greater than 13%, as per the excluded expenses definition of the Lease.

4. Page 6 – 3rd Bullet

Please add to the last sentence the following: ... for the purposes of ascertaining additional rent payments due the City.

5. Page 7- 1st Bullet ($15,560)

Per our Financial Statements all income is reported. With regard to the Additional Rent Calculation there are allowable exclusions to revenue (i.e. insurance reimbursement for loss or damages) which have been shown.

34-12 36th Street, Astoria, New York 11106 (718) 392-5600 Fax No. (718) 706-7733
www.kaufmanastoria.com

6. Page 7 – 2nd Bullet

We disagree with the statement that KASI manages other affiliated businesses (such as KAS Music and Sound, LLC and Studio Annex, aka Media Realty Group) but charged Astoria for 100 percent of all the KASI administrative expenses. In fact, KAS Music and Sound, LLC has their own payroll and administrative expenses. Media Realty Group receives a monthly bill of approximately 3% as its share of the total KASI payroll expenses and has their own administrative expenses. (See Exhibit 1, billing to Media Realty Group).

7. Page 7 –"Findings Last Paragraph"

The dollar amount should be $531,751.

8. Page 7 - Compliance Issues –

Please change "Water and Sewer Use Not Paid" to "Water and Sewer Use Not Billed or Paid".

9. Page 8 – 1st Paragraph

It should be noted that Astoria paid the $135,237 billed in installments as allowed by DEP, the last payment for this invoice was received by DEP on November 14, 2006. All bills have since been paid in full and are current.

10. Page 8 – 2nd Paragraph

Should be changed as follows:
DEP has installed new meters for a second Astoria Account (No. 60005-25756-001) because the meters were found to be inoperable. DEP has since generated new billing which has been paid in full by Astoria in a timely manner.

11. Page 8 – 4th Paragraph

NYC and EDC were and are properly covered as additional insured, under the "Umbrella" policy. See the attached Letter (Exhibit 2) from GAB Associates, so stating this.

12. Page 8- Last Paragraph

ASLP II has submitted draft audited financials to the City in a timely fashion. Generally, the response in the form of a Certificate of No Default by the City has taken four to six months and on occasion even longer. Our auditors cannot issue the final financials without this document from the City. Upon receipt from the City, ASLP II has submitted the final financials within 30 days. (See Exhibit 3-Letter from the Auditors)

Should you have any questions, comments or suggestions regarding the above, please feel free to contact me at my office at 718-392-5600

Sincerely yours,

Ellen Weisman

Ellen Weisman
Controller

cc: Michael Morgese
Hal G. Rosenbluth
Clemente Pascarella

EXHIBIT 1

INVOICE

Invoice Number
26703
Date
January 01, 2005

ASTORIA STUDIOS LIMITED PARTNERSHIP II
34-12 36TH STREET
ASTORIA, NY 11106
Tel. (718) 392-5600 Fax (718) 706-7733

MED001
MEDIA REALTY GROUP
C\O KAUFMAN ASTORIA STUDIOS
34-12 36TH STREET
ASTORIA NY 11106

DESCRIPTION	TOTAL
ALLOCATION OF PAYROLL RELATED	
EXPENSES - JAN 2005	3,750.00

SUBTOTAL	$3,750.00
SALES TAX	$0.00
TOTAL	**$3,750.00**

EXHIBIT 2

INSURANCE BROKERAGE INC.

April 7, 2007

Mr. Michael Morgese
c/o The City of New York
Office of the Comptroller - Executive Offices
1 Centre Street
New York, NY 10007

Re: Umbrella Excess Liability
Illinois National Insurance Company
Policy Terms: 3/11/04-05 & 3/11/05-06
Policy #'s: BE5683138 & BE2963549

Dear Mr. Morgese:

Please be advised that I have been the insurance broker for Astoria Studios Limited Partnership II (ASLP II) since 1985 and in every year since then including the current year, ASLP II has carried Umbrella Excess Liability Insurance and provided same for New York City, New York City Economic Development Corporation and its related parties required under the lease as additional insureds.

To help coordinate the Umbrella Excess Liability Insurance with the primary liability insurance, most Umbrella Excess Liability policies (as does Illinois National Insurance Company) have a provision automatically granting insured status to any person or organization that is named as an additional insured under a primary policy (a/k/a the Commercial General Liability policy). This ensures that the Excess Liability insurance provided by the Umbrella Excess Liability policy will follow form to the same persons who are insured by the primary policy.

This automatic provision granting additional insured status is evidenced under the enclosed (Exhibit #1) policy section VII – Definitions item M. 7. "Insured" of the Illinois National Insurance Company which reads as follows:

> ***7. any person or organization, other than the Named Insured, included as an additional insured under Scheduled Underlying Insurance, but not for broader coverage than would be afforded by such Scheduled Underlying Insurance.***

Additionally, I am including a copy as Exhibit # 2 , of the additional insured endorsement from the Scheduled Underlying Insurance of the primary Commercial General Liability policy listing the New York City Economic Development Corporation, the City of New York and Apple Industrial Development Corp. as additional insured.

Kaufman Astoria Studios Building • 34-12 36th Street • Astoria, N.Y. 11106 • (718) 706-5309 • Fax: (718) 472-0989

Please note if your insurance representative has any questions on the above or the enclosed, please feel free to have this person contact me directly.

Sincerely,

George Bellini
President

Enclosures

Cc: John Graham – The City of New York Office of the Controller – Executive Offices
Hal Rosenbluth – Astoria Studios Limited Partnership II

#1

if such property can be restored to use by:

1. the repair, replacement, adjustment or removal of **Your Product** or **Your Work**; or
2. your fulfilling the terms of the contract or agreement.

M. **Insured** means:

1. the **Named Insured**;
2. if you are designated in the declarations as:
   a. an individual, you and your spouse are insureds, but only with respect to the conduct of a business of which you are the sole owner;
   b. a partnership or joint venture, you are an insured. Your members and your partners are also insureds, but only with respect to the conduct of your business;
   c. a limited liability company, you are an insured. Your members are also insureds, but only with respect to the conduct of your business. Your managers are insureds, but only with respect to their duties as your managers;
   d. an organization other than a partnership, joint venture or limited liability company, you are an insured. Your executive officers and directors are insureds, but only with respect to their duties as your officers or directors. Your stockholders are also insureds, but only with respect to their liability as stockholders;
   e. a trust, you are an insured. Your trustees are also insureds, but only with respect to their duties as trustees;
3. your employees other than your executive officers (if you are an organization other than a partnership, joint venture or limited liability company) or your managers (if you are a limited liability company), but only for acts within the scope of their employment by you or while performing duties related to the conduct of your business;
4. your volunteer workers only while performing duties related to the conduct of your business;
5. any person (other than your employee or volunteer worker) or organization while acting as your real estate manager;
6. your legal representative if you die, but only with respect to duties as such. That representative will have all your rights and duties under this policy;
7. any person or organization, other than the **Named Insured**, included as an additional insured under **Scheduled Underlying Insurance**, but not for broader coverage than would be afforded by such **Scheduled Underlying Insurance**.

Notwithstanding any of the above:

a. no person or organization is an **Insured** with respect to the conduct of any current, past or newly formed partnership, joint venture or limited liability company that is not designated as a **Named Insured** in Item 1 of the Declarations; and

b. no person or organization is an **Insured** under this policy who is not an **Insured** under **Scheduled Underlying Insurance**.

N. **Insured Contract** means that part of any contract or agreement pertaining to your business under which any **Insured** assumes the tort liability of another party to pay for **Bodily Injury** or **Property Damage** to a third person or organization. Tort liability means a liability that would be imposed by law in the absence of any contract or agreement.

... SUCH FORMS AND RATES MEET THE MINIMUM STANDARDS OF THE NEW YORK STATE INSURANCE LAW AND REGULATIONS.

POLICY NUMBER: CPO 4893868-00

COMMERCIAL GENERAL LIABILITY

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ADDITIONAL INSURED – OWNERS OR OTHER INTERESTS FROM WHOM LAND HAS BEEN LEASED

This endorsement modifies insurance provided under the following:

COMMERCIAL GENERAL LIABILITY COVERAGE PART.

SCHEDULE

Designation of Premises (Part Leased to You):

LOC 001

Name of Person or Organization:

NEW YORK CITY ECONOMIC DEVELPMENT
CORPORATION
THE CITY OF NY AND APPLE INDUSTRIAL
DEVELOPMENT CORP.
110 WILLIAM ST., NEW YORK, NY 10038

(If no entry appears above, information required to complete this endorsement will be shown in the Declarations as applicable to this endorsement.)

WHO IS AN INSURED (Section II) is amended to include as an insured the person or organization shown in the Schedule but only with respect to liability arising out of the ownership, maintenance or use of that part of the land leased to you and shown in the Schedule and subject to the following additional exclusions:

This insurance does not apply to:

1. Any "occurrence" which takes place after you cease to lease that land;
2. Structural alterations, new construction or demolition operations performed by or on behalf of the person or organization shown in the Schedule.

AGENT COPY

POLICY NUMBER: CPO 4893868-01

COMMERCIAL GENERAL LIABILITY

THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.

ADDITIONAL INSURED – OWNERS OR OTHER INTERESTS FROM WHOM LAND HAS BEEN LEASED

This endorsement modifies insurance provided under the following:

COMMERCIAL GENERAL LIABILITY COVERAGE PART.

SCHEDULE

Designation of Premises (Part Leased to You):

LOC 001

Name of Person or Organization:

NEW YORK CITY ECONOMIC DEVELPMENT
CORPORATION
THE CITY OF NY AND APPLE INDUSTRIAL
DEVELOPMENT CORP.
110 WILLIAM ST., NEW YORK, NY 10038

(If no entry appears above, information required to complete this endorsement will be shown in the Declarations as applicable to this endorsement.)

WHO IS AN INSURED (Section II) is amended to include as an insured the person or organization shown in the Schedule but only with respect to liability arising out of the ownership, maintenance or use of that part of the land leased to you and shown in the Schedule and subject to the following additional exclusions:

This insurance does not apply to:

1. Any "occurrence" which takes place after you cease to lease that land;
2. Structural alterations, new construction or demolition operations performed by or on behalf of the person or organization shown in the Schedule.

AGENT COPY

EXHIBIT 3

TPA **The Professional Associates, P.C.**
Certified Public Accountants and Consultants

April 19, 2007

Mr. John Graham
The City of New York
Office of the Comptroller
1 Centre Street
New York, NY 10007-2341

RE: Audit Report on the Compliance of Astoria Studios Limited Partnership II With Its Lease Agreement – Draft - Dated March 30, 2007

Dear Mr. Graham:

The above referenced audit report contains the following finding on page 8:

> **<u>Late Submission of Financial Statements and Additional Rent Calculations.</u>**
>
> "Astoria did not submit for calendar year 2005 audited financial statements and calculation of additional rent due EDC in a timely manner. Lease agreement sections 38.01 and 38.02 require Astoria to submit this documentation within 120 days after the end of each calendar year. However, Astoria did not submit the required documents until it received a letter from EDC dated August 30, 2006 – 242 days after the end of calendar year 2005. It should also be noted that EDC officials informed us that Astoria prior years' submissions were similarly late."

In response to the aforementioned finding, it should be noted that audited financial statements and the calculation of additional rent due EDC cannot be finalized and/or submitted unless and until the lessee, Astoria Studios Limited Partnership II, receives the certificate of no default from EDC.

Questions, comments or concerns regarding this matter should be directed to the undersigned.

Very truly yours,

James F. Beardsley

54 West Park Place, Stamford, CT 06901, Phone (203) 323-9771, Fax (203) 323-6266

New York City
Economic Development
Corporation

110 William Street
New York, NY 10038
Tel: 212.619.5000
info@nycedc.com
www.nycedc.com

April 12, 2007

John Graham, Deputy Comptroller
Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007-2341

Re: Response to Audit Report on the Compliance of Astoria Studios Limited Partnership II with Its Lease Agreement dated March 30, 2007
FM06-115A

Dear Mr. Graham:

Below is our response to the above referenced draft audit report:

> Recommendation 7: Review the allocation method developed by KASI to ensure that its administrative expenses are properly allocated to Astoria Studios.
>
> ***EDC's Response:*** EDC will continue to review and monitor the allocation method developed by KASI to ensure that its administrative expenses are properly allocated to Astoria Studios.
>
> Recommendation 8: Ensure that Astoria complies with the recommendations in this report.
>
> ***EDC's Response:*** EDC will ensure that Astoria Studios complies with the recommendations set forth in the audit report.

Thank you for the opportunity to respond to the recommendations in the audit report.

Very truly yours,

Deo Singh
Controller

cc: Jason Wright
Hope Malleri