

***Hudson Yards  
Development  
Corporation***

***Financial Statements  
For the year ended June 30, 2006  
Independent Auditors' Report***

# HUDSON YARDS DEVELOPMENT CORPORATION

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-3
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2006:	
Financial Statements:	
Statement of Net Deficit	4
Statement of Activities	5
Governmental Fund Financial Statements:	
Governmental Fund Balance Sheet	6
Statement of Revenues, Expenditures and Changes in Fund Deficit	7
Notes to Financial Statements	8-10

## INDEPENDENT AUDITORS' REPORT

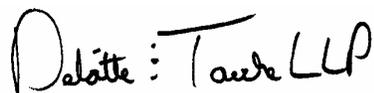
To the Members of the Boards of Directors and Audit Committee of the Hudson Yards Development Corporation:

We have audited the accompanying financial statements of the governmental activities of the Hudson Yards Development Corporation ("HYDC"), a component unit of The City of New York, New York, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of HYDC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 respective 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 HYDC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of HYDC as of and for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of HYDC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



October 16, 2006

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

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The following is a narrative overview and analysis of the financial activities of the Hudson Yards Development Corporation ("HYDC") as of and for the year ended June 30, 2006. It should be read in conjunction with HYDC's financial statements, governmental funds financial statements and the notes to the financial statements.

HYDC's purpose is to manage and implement the development and redevelopment activities (the "Project") on the west side of the borough of Manhattan in an area generally bounded by Seventh and Eighth Avenues on the east, West 43<sup>rd</sup> Street on the north, Twelfth Avenue on the west and West 29<sup>th</sup> and 30<sup>th</sup> Streets on the south (the "Project Area"). The Project consists of (1) the design and construction of an extension of the No. 7 Subway from its current terminus at 7<sup>th</sup> Avenue and 41<sup>st</sup> Street to a new terminal at 11<sup>th</sup> Avenue and West 34<sup>th</sup> Street (the "No. 7 Subway Construction"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30<sup>th</sup> and West 33<sup>rd</sup> Streets ("Eastern Rail Yards" or "ERY") (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project.

The financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the financial statements; and (3) the governmental funds financial statements.

The financial statements, which include the statement of net deficit and the statement of activities, are presented to display information about HYDC, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended. This is to provide the reader with a broad overview of HYDC's finances. The statement of net deficit and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting, in which all revenues and expenses are taken into account regardless of when cash is paid or received.

HYDC's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due.

As of June 30, 2006, HYDC had no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between the financial statements and its governmental fund financial statements for fiscal 2006, and no reconciliation is provided.

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEAR ENDED JUNE 30, 2006

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### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—FINANCIAL STATEMENTS (amounts in thousands, except as noted)

At June 30, 2006, HYDC had assets of \$281 consisting of cash and cash equivalents of \$272 and a receivable due from the New York City Economic Development Corporation ("NYCEDC") of \$9 and liabilities of \$1,424 consisting of a loan payable to NYCEDC of \$793, accrued Project costs of \$481 and accrued expenses of \$150. The net deficit balance of \$1,143 at year end is the result of these short term liabilities, which will be paid in full in fiscal 2007.

During the year ended June 30, 2006, HYDC's revenue of \$3,276 consisted mainly of a grant from NYCEDC of \$1,776 and a payment of \$1,500 from the Hudson Yards Infrastructure Corporation, ("HYIC"). Expenses for the year of \$4,419 consisted of Project costs of \$3,235 and general and administrative costs of \$1,184.

### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (amounts in thousands, except as noted)

At June 30, 2006, HYDC had assets of \$281 consisting of cash and cash equivalents of \$272 and a receivable due from NYCEDC of \$9 and liabilities of \$1,424 consisting of a loan payable to NYCEDC of \$793, accrued project costs of \$481 and accrued expenses of \$150. The fund balance of \$1,143 at year end is primarily the result of short term liabilities that will be paid in full in fiscal 2007.

During the year ended June 30, 2006, HYDC's revenue of \$3,276 consisted mainly of a grant from NYCEDC of \$1,776 and a payment of \$1,500 from the HYIC. Expenditures for the year of \$4,419 consisted of Project costs of \$3,235 and general and administrative costs of \$1,184.

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# HUDSON YARDS DEVELOPMENT CORPORATION

## STATEMENT OF NET DEFICIT AS OF JUNE 30, 2006

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### ASSETS:

Unrestricted cash and cash equivalents	\$ 271,652
Due from NYC Economic Development Corporation	<u>9,249</u>

Total assets	<u>280,901</u>
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### LIABILITIES:

Accrued project costs	\$ 481,203
Accrued expenses	149,667
Loan payable to NYC Economic Development Corporation	<u>793,368</u>

Total liabilities	<u>1,424,238</u>
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NET DEFICIT	<u><u>\$ (1,143,337)</u></u>
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See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

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REVENUES:	
Grant from NYC Economic Development Corporation	\$ 1,775,725
Hudson Yards Infrastructure Corporation payments	1,500,000
Investment income	<u>13</u>
Total revenues	<u>3,275,738</u>
EXPENSES:	
Project expenditures	3,235,238
General and administrative	<u>1,183,837</u>
Total expenses	<u>4,419,075</u>
CHANGE IN NET DEFICIT	(1,143,337)
NET ASSETS—Beginning of year	<u>-</u>
NET DEFICIT—End of year	<u>\$ (1,143,337)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## GOVERNMENTAL FUND BALANCE SHEET AS OF JUNE 30, 2006

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	<b>Capital Projects Fund</b>
ASSETS:	
Unrestricted cash and cash equivalents	\$ 271,652
Due from NYC Economic Development Corporation	<u>9,249</u>
Total assets	<u>\$ 280,901</u>
LIABILITIES:	
Accrued project costs	\$ 481,203
Accrued expenses	149,667
Loan payable to NYC Economic Development Corporation	<u>793,368</u>
Total liabilities	1,424,238
FUND DEFICIT	<u>(1,143,337)</u>
Total liabilities and fund deficit	<u>\$ 280,901</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT FOR THE YEAR ENDED JUNE 30, 2006

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	<b>Capital Projects Fund</b>
REVENUES:	
Grant from NYC Economic Development Corporation	\$ 1,775,725
Hudson Yards Infrastructure Corporation payments	1,500,000
Investment income	<u>13</u>
Total revenues	<u>3,275,738</u>
EXPENDITURES:	
Project expenditures	3,235,238
General and administrative	<u>1,183,837</u>
Total expenditures	<u>4,419,075</u>
NET CHANGE IN FUND DEFICIT	(1,143,337)
FUND BALANCE—Beginning	<u>-</u>
FUND DEFICIT—Ending	<u>\$ (1,143,337)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006 (amounts in thousands, except as noted)

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### 1. ORGANIZATION

The Hudson Yards Development Corporation, (“HYDC”), was formed to manage and implement New York’s (“The City”) economic development initiative to redevelop the Hudson Yards area on the West Side of the borough of Manhattan in an area generally bounded by Seventh and Eighth Avenues on the east, West 43<sup>rd</sup> Street on the north, Twelfth Avenue on the west and West 29<sup>th</sup> and 30<sup>th</sup> Streets on the south (the “Project Area”).

HYDC is a local development corporation organized under the New York State Not-For-Profit Corporation Law, by The City to manage the implementation of the Project. HYDC is governed by a Board of Directors of thirteen persons, a majority of whom serve at the pleasure of the Mayor of The City (“Mayor”). HYDC works with various City and State agencies and authorities and with private developers on the design and construction and implementation of the various elements of the Project, and to further private development and redevelopment of the Project Area. HYDC does not have any employees; its affairs are administered by employees of the New York City Economic Development Corporation (“NYCEDC”), which is a discretely presented component unit of The City. HYDC reimburses NYCEDC for the cost of all salaries and benefits for those NYCEDC employees who are dedicated to HYDC.

Although legally separate from The City, HYDC is an instrumentality of The City and, accordingly, is included in The City’s financial statements as a blended component unit, in accordance with GASB Statement 14, as amended.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Measurement focus and basis of accounting*

The financial statements of HYDC, which include the statement of net deficit and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34, as amended. The statement of net deficit and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

HYDC’s governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenue is generally considered available if expected to be received within one year after period end. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due.

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2006 (amounts in thousands, except as noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The governmental fund financial statements consist of a capital projects fund, which reports receipt of bond proceeds and expenditures for the Project and for the operations of HYDC.

As of June 30, 2006, HYDC has no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between the financial statements and its governmental fund financial statements for fiscal 2006, and no reconciliation is provided.

#### *Capital Assets*

HYDC will not be the owner of the Project assets constructed or acquired (other than transferable development rights which may be acquired from the Metropolitan Transportation Authority) as those assets become the property of The City. Therefore, HYDC reports no infrastructure assets or construction work in progress.

For fixed assets used in the operations of HYDC, HYDC's policy is to capitalize the purchase or construction costs of assets having a minimum useful life of five years and having a cost of more than \$35,000; no such assets have been acquired or constructed.

#### *Use of Estimates*

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires HYDC's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### 3. CASH AND CASH EQUIVALENTS

At June 30, 2006, HYDC's cash and cash equivalents consist of bank deposits in the amount of \$272.

### 4. RELATED PARTY TRANSACTIONS

During fiscal year 2006, HYDC was assisted in its development and organization by NYCEDC. NYCEDC made expenditures to and on behalf of HYDC, both from of its own funds and from payments in lieu of taxes ("PILOT") which The City instructed NYCEDC to use on behalf of the Project. Expenditures by NYCEDC on behalf of HYDC included salaries and benefits of employees dedicated to HYDC, other general and administrative expenses, and Project costs. The combined value of the assistance was \$4,069 of which \$1,776 was a grant. HYDC repaid \$1,500 during fiscal 2006, from a payment to HYDC from Hudson Yards Infrastructure Corporations ("HYIC") of the same amount, and expects to repay the loan payable of \$793 during fiscal 2007.

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED JUNE 30, 2006 (amounts in thousands, except as noted)

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### 5. SUBSEQUENT EVENTS

On October 14, 2006, HYDC hired employees who now administer the affairs of HYDC, including human resources and payroll, and therefore, will pay their own payroll and benefits expenses. Thus, as of that date, NYCEDC employees will no longer be administering these affairs for HYDC.

The Rail Yards Agreement dated September 28, 2006, between the Metropolitan Transportation Authority (“MTA”), Triborough Bridge and Tunnel Authority, The Long Island Railroad Company, and The City of New York (the “Agreement”), calls for HYDC’s participation in a joint planning and development process for the MTA’s Eastern and Western Rail Yards in the Hudson Yards area. In addition, the agreement details the treatment of Eastern Rail Yards Transferable Development Rights (“TDRs”), including HYIC’s acquisition of an interest in the TDRs for \$200 million, and HYDC’s authority to market the TDRs and manage their sale. The Boards of Directors of both HYDC and HYIC have passed resolutions agreeing to fulfill their obligations under the Agreement.

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