

***Hudson Yards
Development
Corporation***

Financial Statements

For the years ended June 30, 2007 and 2006

Independent Auditors' Report

HUDSON YARDS DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

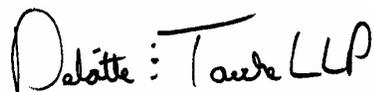
To the Members of the Boards of Directors and Audit Committee of the Hudson Yards Development Corporation:

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, as of and for the years ended June 30, 2007 and 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 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 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. 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 respective financial position of the governmental activities of HYDC as of June 30, 2007 and 2006, and respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 4 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 the information and we do not express an opinion on it.



September 17, 2007

HUDSON YARDS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2007 and 2006

OVERVIEW OF THE FINANCIAL STATEMENTS AND THE ORGANIZATION

The following is a narrative overview and analysis of the financial activities of the Hudson Yards Development Corporation ("HYDC") as of and for the years ended June 30, 2007 and 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 43rd Street on the north, Twelfth Avenue on the west and West 29th and 30th 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 7th Avenue and 41st Street to a new station at 11th Avenue and West 34th 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 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY") (3) construction of certain public amenities in the Project Area, including a system of parks, public open spaces, and streets ("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 statements of net deficit and the statements 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 statements of net deficit and the statements 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.

As of June 30, 2007, 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 2007, and no reconciliation is provided.

HUDSON YARDS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS

The following summarizes HYDC's assets, liabilities and net assets as of June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>change</u>
Assets:			
Total Assets - non-capital	\$ 547,388	\$ 280,901	\$ 266,487
Liabilities:			
Accrued Project Costs	\$ 758,700	\$ 481,203	\$ 277,497
Accrued Expenses	63,201	149,667	(86,466)
Loan Payable to NYC EDC	-	793,368	(793,368)
Total Liabilities	821,901	1,424,238	(602,337)
Net deficit:			
Total Net Deficit:	<u>\$ (274,513)</u>	<u>\$ (1,143,337)</u>	<u>\$ 868,824</u>

Referring to the exhibit above, as of June 30, 2007, HYDC had assets consisting of cash and cash equivalents, and liabilities consisting of accrued project costs and accrued expenses. The net deficit balance of \$274,513 as of the end of fiscal 2007 is the result of these short term liabilities, which were paid in full at the beginning of fiscal 2008.

As of June 30, 2006, HYDC had assets consisting of cash and cash equivalents and a receivable due from the New York City Economic Development Corporation ("NYCEDC"). The payment was received in fiscal 2007, which was the final payment on the grant from NYCEDC. As of June 30, 2006 HYDC had liabilities consisted of a loan payable to NYCEDC, accrued project costs and accrued expenses. The net deficit balance at the end of fiscal 2006 was the result of these short term liabilities, which were paid in full in fiscal 2007.

The increase in total assets at the end of the fiscal year is due to slower than anticipated project consultant invoicing. The increase in accrued project costs from fiscal 2006 to 2007 is due to increased activities on project consulting contracts held by HYDC. The decrease in accrued expenses is due to the fact that in fiscal year 2006 accrued expenses consisted of furniture and computer equipment start-up costs that had not yet been paid at year end and there was no such accruals for fiscal 2007. The decrease in total liabilities for fiscal 2007 is a result of the loan to NYCEDC being paid in full. Overall, HYDC's Total Net Deficit decreased from fiscal 2006 to fiscal 2007 by \$868,824.

HUDSON YARDS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS-(continued)

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenues:			
Grant from NYC EDC	\$ -	\$ 1,775,725	\$ (1,775,725)
HYIC payments	6,185,907	1,500,000	4,685,907
Interest Income	7,914	13	7,901
Total Revenue	<u>6,193,821</u>	<u>3,275,738</u>	<u>2,918,083</u>
Expenses:			
Project Expenditures	3,377,116	3,235,238	141,878
General and Administrative	<u>1,947,881</u>	<u>1,183,837</u>	<u>764,044</u>
Total Expenses	5,324,997	4,419,075	905,922
Change in net deficit	868,824	(1,143,337)	2,012,161
Net deficit, beginning of year	<u>(1,143,337)</u>	<u>-</u>	<u>(1,143,337)</u>
Net deficit, end of year	<u>\$ (274,513)</u>	<u>\$ (1,143,337)</u>	<u>\$ 868,824</u>

Referring to the Exhibit above, HYDC's revenues consisted almost entirely of the payments from Hudson Yards Infrastructure Corporation ("HYIC"). According to the agreement between HYDC and HYIC dated December 1, 2006, HYIC is to fund HYDC's administrative and operating costs related to the Project. The increase in the payments from HYIC is due to a full year of operations of HYDC. The increase in interest earnings from fiscal 2006 to fiscal 2007 reflects that fiscal 2007 was the first full year of HYDC banking and investment activities.

The total expenses for fiscal 2007 consisted of Project costs and general and administrative costs. Similar to HYDC's revenues increase, the total expenses increased due to the full year of operation.

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HUDSON YARDS DEVELOPMENT CORPORATION

STATEMENTS OF NET DEFICIT AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS:		
Unrestricted cash and cash equivalents	\$ 547,388	\$ 271,652
Due from NYC Economic Development Corporation	<u>-</u>	<u>9,249</u>
TOTAL ASSETS	<u>547,388</u>	<u>280,901</u>
LIABILITIES:		
Accrued project costs	758,700	481,203
Accrued expenses	63,201	149,667
Loan payable to NYC Economic Development Corporation	<u>-</u>	<u>793,368</u>
TOTAL LIABILITIES	<u>\$ 821,901</u>	<u>\$ 1,424,238</u>
NET DEFICIT	<u>\$ (274,513)</u>	<u>\$ (1,143,337)</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
REVENUES:		
Grant from NYC Economic Development Corporation	\$ -	\$ 1,775,725
Hudson Yards Infrastructure Corporation payments	6,185,907	1,500,000
Interest income	<u>7,914</u>	<u>13</u>
 Total revenues	 <u>6,193,821</u>	 <u>3,275,738</u>
EXPENSES:		
Project expenditures	3,377,116	3,235,238
General and administrative	<u>1,947,881</u>	<u>1,183,837</u>
 Total expenses	 <u>5,324,997</u>	 <u>4,419,075</u>
 CHANGE IN NET DEFICIT	 868,824	 (1,143,337)
NET DEFICIT — Beginning of year	<u>(1,143,337)</u>	<u>-</u>
NET DEFICIT — End of year	<u>\$ (274,513)</u>	<u>\$ (1,143,337)</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

GOVERNMENTAL FUND BALANCE SHEETS AS OF JUNE 30, 2007 AND 2006

	<u>Capital Projects fund</u>	
	<u>2007</u>	<u>2006</u>
ASSETS:		
Unrestricted cash and cash equivalents	\$ 547,388	\$ 271,652
Due from NYC Economic Development Corporation	<u>-</u>	<u>9,249</u>
Total assets	<u>\$ 547,388</u>	<u>\$ 280,901</u>
LIABILITIES:		
Accrued project costs	758,700	481,203
Accrued expenses	63,201	149,667
Loan Payable to NYC Economic Development Corporation	<u>-</u>	<u>793,368</u>
Total liabilities	821,901	1,424,238
FUND BALANCE	<u>(274,513)</u>	<u>(1,143,337)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 547,388</u>	<u>\$ 280,901</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>Capital Projects Fund</u>	
	<u>2007</u>	<u>2006</u>
REVENUES:		
Grant from NYC Economic Development Corporation	\$ -	\$ 1,775,725
Hudson Yards Infrastructure Corporation payments	6,185,907	1,500,000
Interest income	<u>7,914</u>	<u>13</u>
 Total revenues	 <u>6,193,821</u>	 <u>3,275,738</u>
EXPENSES:		
Project expenditures	3,377,116	3,235,238
General and administrative	<u>1,947,881</u>	<u>1,183,837</u>
 Total expenditures	 <u>5,324,997</u>	 <u>4,419,075</u>
 NET CHANGE IN FUND BALANCE	 868,824	 (1,143,337)
FUND BALANCE — Beginning of year	<u>(1,143,337)</u>	<u>-</u>
FUND BALANCE — End of year	<u>\$ (274,513)</u>	<u>\$ (1,143,337)</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION

The Hudson Yards Development Corporation (“HYDC”) is a local development corporation organized under the New York State Not-For-Profit Corporation Law. It was created by the City of New York (“The City”) to manage and implement the City’s economic development initiative to redevelop the Project Area. 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.

HYDC is governed by a Board of Directors of thirteen persons, all of whom serve ex officio by virtue of their position as an official or employee of The City. A majority of the members of the Board of Directors serve as officials or employees of The City 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement focus and basis of accounting

The financial statements of HYDC, which include the statements of net deficit and the statements of activities, are presented to provide information about the reporting entity as a whole, in accordance with GASB Statement No. 34, as amended. The statements of net deficit and the statements 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.

HUDSON YARDS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The governmental fund financial statements reports receipt of revenues and expenditures for the project and for the operations of HYDC.

As of June 30, 2007, HYDC has no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between its financial statements and its governmental fund financial statements for fiscal 2007, and no reconciliation is provided.

Capital Assets

HYDC will not be the owner of the project assets constructed or acquired 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.

New Accounting Standards

HYDC has not completed the process of evaluating the impact that will result from adopting Statement of Governmental Accounting Standards No. 48: *Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenues*. HYDC is therefore unable to disclose the impact that adopting this statement will have on the financial statements. This statement is effective for fiscal periods beginning after December 15, 2006, which will be for HYDC's fiscal year ending June 30, 2008.

HYDC has not completed the process of evaluating the impact that will result from adopting Statement of Governmental Accounting Standards No. 49: *Accounting and Financial Reporting for Pollution Remediation Obligations*. HYDC is therefore unable to disclose the impact that adopting this statement will have on the financial statements. This statement is effective for fiscal periods beginning after December 15, 2007, which will be for HYDC's fiscal year ending June 30, 2009.

HUDSON YARDS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

3. CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, HYDC's cash and cash equivalents consist of bank deposits in the amount of \$547,388 and \$271,652, respectively, of which \$447,388 and \$171,652 was uninsured and uncollateralized and was exposed to custodial credit risk.

4. RELATED PARTY TRANSACTIONS

For the first 4 months of fiscal 2007, NYCEDC paid HYDC's payroll and fringe benefit costs on behalf of HYDC, in a total amount of \$370,317. This amount, together with NYCEDC's fiscal 2006 loan of \$793,368 to HYDC, was repaid by HYDC to NYCEDC in June 2007 pursuant to a Memorandum of Understanding between NYCEDC and HYDC.

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