

***Hudson Yards  
Development  
Corporation***

***Financial Statements***

***For the Years Ended June 30, 2008 and 2007***

***Independent Auditors' Report***

# HUDSON YARDS DEVELOPMENT CORPORATION

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-5
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007:	
Financial Statements:	
Statements of Net Assets (Deficit)	6
Statements of Activities	7
Governmental Fund Financial Statements:	
Governmental Fund Balance Sheets	8
Statements of Revenues, Expenditures and Changes in Fund Balances	9
Notes to Financial Statements	10-12

## INDEPENDENT AUDITORS' REPORT

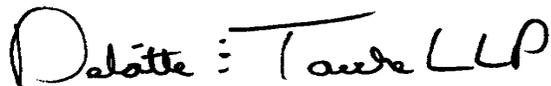
To the Members of the Boards of Directors and Audit Committee of the Hudson Yards Development Corporation:

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, 2008 and 2007, 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 the 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, 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, 2008 and 2007, and the 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 5 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.



September 4, 2008

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

---

### 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, 2008 and 2007. It should be read in conjunction with HYDC's financial statements, governmental fund 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 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 fund financial statements.

The financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to provide 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 assets (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, 2008, 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 2008, and no reconciliation is provided.

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### Financial Highlights and Overall Analysis — Financial Statements

The following summarizes HYDC's assets, liabilities and net assets as of June 30, 2008, 2007 and 2006.

	2008	2007	2006	Variance	
				2008/07	2007/06
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 279,098	\$ 547,388	\$ 271,652	\$ (268,290)	\$ 275,736
RG WRY LLC receivable	619,810	-	-	619,810	-
Prepaid expenses	31,890	-	-	31,890	-
Due from NYC EDC	-	-	9,246	-	(9,246)
Total assets	930,798	547,388	280,898	383,410	266,490
<b>LIABILITIES:</b>					
Accrued project expenses	9,633	758,700	481,203	(749,067)	277,497
Accrued expenses	79,893	63,201	149,667	16,692	(86,466)
Accrued WRY environmental impact study expenses	619,810	-	-	619,810	-
Loan payable to NYC EDC	-	-	793,368	-	(793,368)
Total liabilities	709,336	821,901	1,424,238	(112,565)	(602,337)
NET ASSETS (DEFICIT)	\$ 221,462	\$ (274,513)	\$ (1,143,340)	\$ 495,975	\$ 868,827

Referring to the exhibit above, as of June 30, 2008, HYDC had assets consisting of cash and cash equivalents, receivable, and prepaid expenses, and liabilities consisting of accrued expenses and accrued Western Rail Yard ("WRY") environmental impact study expenses. The net asset balance of \$221,462 for fiscal 2008 is primarily due to the fact that HYDC had minor accrued project expenses as of June 30, 2008, in contrast to fiscal 2007 in which HYDC had accrued project expenses of \$758,700 as of June 30, 2007.

As of June 30, 2007, HYDC had assets consisting only of cash and cash equivalents, and liabilities consisting of accrued project expenses and accrued expenses.

The increase in total assets from fiscal 2007 to 2008 is primarily due to a new short-term receivable due from RG WRY LLC ("RG WRY"). RG WRY will fund HYDC for its costs relating to environmental analysis in connection with the rezoning of the Western Rail Yard and associated actions ("WRY EIS Expenses"). HYDC has established a separate bank account to segregate the funds received from RG WRY for such expenses from all other HYDC funds. See Note 4 for a detailed description of the relevant agreements and expenses.

The decrease in accrued project expenses from fiscal 2007 to 2008 is due to the fact that HYDC paid the majority of fiscal 2008 project expenses by June 30, 2008. A new liability in fiscal 2008 is the accrued WRY EIS Expenses. The amount of such liability is exactly off-set by the fiscal 2008 receivable from RG WRY.

HYDC's total net assets increased by \$495,975 from fiscal 2007 to 2008, primarily due to the decrease in accrued project expenses from fiscal 2007 to 2008.

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### Financial Highlights and Overall Analysis — Financial Statements (Continued)

Comparing fiscal 2007 and 2006, the increase in assets from 2006 to 2007 was due to slower than anticipated project consultant invoicing, leaving HYDC with more cash on hand as of June 30, 2007. The increase in accrued project expenses was due to increased activities on project consulting contracts. The decrease in accrued expenses was due to the fact that all fiscal year 2007 expenses were paid during fiscal 2007 whereas the one-time HYDC start up-expenses incurred during fiscal 2006 were not paid in full by the end of fiscal 2006. The decrease in total liabilities between the two years is due to the full payoff in fiscal 2007 of the loan to HYDC made by the New York City Economic Development Corporation (“NYCEDC”). The total net deficit decreased from fiscal 2006 to 2007 by \$868,824.

The following summarizes HYDC’s revenue, expenses and net changes in net assets (deficit) as of June 30, 2008, 2007, and 2006.

	2008	2007	2006	Variance	
				2008/07	2007/06
REVENUES:					
HYIC grant	\$ 3,020,580	\$ 6,185,907	\$ 1,500,000	\$ (3,165,327)	\$ 4,685,907
RG WRY LLC funding	619,810	-	-	619,810	-
NYC EDC Grant	-	-	1,775,725	-	(1,775,725)
Interest income	19,987	7,914	13	12,073	7,901
Total revenue	<u>3,660,377</u>	<u>6,193,821</u>	<u>3,275,738</u>	<u>(2,533,444)</u>	<u>2,918,083</u>
EXPENSES:					
General and administrative	1,997,272	1,947,881	1,183,837	49,391	764,044
WRY environmental impact study	619,810	-	-	619,810	-
Project expenditures	<u>547,320</u>	<u>3,377,116</u>	<u>3,235,238</u>	<u>(2,829,796)</u>	<u>141,878</u>
Total expenses	<u>3,164,402</u>	<u>5,324,997</u>	<u>4,419,075</u>	<u>(2,160,595)</u>	<u>905,922</u>
CHANGE IN NET ASSETS	495,975	868,824	(1,143,337)	(372,849)	2,012,161
NET DEFICIT — Beginning of year	<u>(274,513)</u>	<u>(1,143,337)</u>	-	868,824	(1,143,337)
NET ASSETS (DEFICIT) — End of year	<u>\$ 221,462</u>	<u>\$ (274,513)</u>	<u>\$ (1,143,337)</u>	<u>\$ 495,975</u>	<u>\$ 868,824</u>

From fiscal 2007 to 2008, HYDC’s revenue decreased by approximately 40.9%. This decrease in revenue was primarily due to a reduction in HYDC-paid project expenses, resulting in part from HYDC’s close-out of the Hudson Yards Development Corporation MTA Railyard engineering study consulting contract (the “Railyard Engineering Study”) that began in fiscal 2006.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

---

**Financial Highlights and Overall Analysis — Financial Statements (Continued)**

In fiscal 2008, HYDC recorded revenue of RG WRY Funding, in the amount of \$619,810. This revenue is in the exact amount of the expense recorded by HYDC in fiscal 2008 for WRY environmental impact study. See Note 4 for a detailed explanation of the relevant agreements and expenses.

Interest income increased from fiscal 2007 to 2008 by \$12,073. This increase resulted from HYDC's investment of HYIC funds received in early fiscal 2008 that were not immediately used by HYDC for project or operating expenses. Such HYIC funds were invested by HYDC according to the HYDC investment policies approved by the HYDC Board of Directors.

From fiscal 2007 to 2008, HYDC's general and administrative expenses remained nearly constant, with an increase of only 2.5%. There was a significant decrease in HYDC Project expenditures from fiscal 2007 to 2008, primarily due to the close-out of the Railyard Engineering Study. At the end of fiscal 2008, HYDC shows a net asset balance of \$221,462, an increase of \$495,975 over fiscal 2007.

Referring to the exhibit above, HYDC's revenues for fiscal 2006 consisted primarily of funding from the Hudson Yards Infrastructure Corporation (HYIC) and an NYCEDC grant, for fiscal 2007 consisted primarily of HYIC funding, and for fiscal 2008 consisted primarily of HYIC and RG WRY funding. According to the Hudson Yards Support and Development Agreement among the City of New York, HYDC and Hudson Yards Infrastructure Corporation (HYIC) dated December 1, 2006, HYIC funds HYDC's administrative and project expenditures related to the Project.

Comparing fiscal 2007 to 2006, the increase in revenues from fiscal 2006 to 2007 was due to increased HYIC funding to pay for HYDC's first full year of operations. The increase in interest income reflects HYDC's first full year of banking and investment activity. Similar to HYDC's revenue increase, the total expenses increased from 2006 to 2007 due to HYDC conducting its full year of operations.

**Financial Highlights and Overall Analysis — Governmental Fund Financial Statements**

As there are no reconciliation items between the financial statements presented in accordance with GASB No. 34 and the governmental fund financial statements explained in the previous overview section, separate overall analysis of governmental fund financial statements is not necessary. See the above analysis for financial statements.

\* \* \* \* \*

# HUDSON YARDS DEVELOPMENT CORPORATION

## STATEMENTS OF NET ASSETS (DEFICIT) AS OF JUNE 30, 2008 AND 2007

---

	2008	2007
ASSETS:		
Cash and cash equivalents	\$279,098	\$ 547,388
RG WRY LLC receivable	619,810	-
Prepaid expenses	<u>31,890</u>	<u>-</u>
Total assets	<u>930,798</u>	<u>547,388</u>
LIABILITIES:		
Accrued project expenses	9,633	758,700
Accrued WRY environmental impact study expenses	619,810	-
Accrued expenses	<u>79,893</u>	<u>63,201</u>
Total liabilities	<u>709,336</u>	<u>821,901</u>
NET ASSETS (DEFICIT)	<u>\$221,462</u>	<u>\$(274,513)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

---

	2008	2007
REVENUES:		
Hudson Yards Infrastructure Corporation grant	\$3,020,580	\$ 6,185,907
RG WRY LLC funding	619,810	-
Interest income	<u>19,987</u>	<u>7,914</u>
Total revenues	<u>3,660,377</u>	<u>6,193,821</u>
EXPENSES:		
General and administrative	1,997,272	1,947,881
WRY environmental impact study expenses	619,810	-
Project expenditures	<u>547,320</u>	<u>3,377,116</u>
Total expenses	<u>3,164,402</u>	<u>5,324,997</u>
CHANGE IN NET ASSETS	495,975	868,824
NET DEFICIT — Beginning of year	<u>(274,513)</u>	<u>(1,143,337)</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 221,462</u>	<u>\$ (274,513)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## GOVERNMENTAL FUND BALANCE SHEETS AS OF JUNE 30, 2008 AND 2007

---

	<u>Capital Projects Fund</u>	
	<u>2008</u>	<u>2007</u>
ASSETS:		
Cash and cash equivalents	\$279,098	\$ 547,388
RG WRY LLC receivable	619,810	-
Prepaid expenses	<u>31,890</u>	<u>-</u>
Total assets	<u>930,798</u>	<u>547,388</u>
LIABILITIES:		
Accrued project expenses	9,633	758,700
Accrued WRY environmental impact study expenses	619,810	
Accrued expenses	<u>79,893</u>	<u>63,201</u>
Total liabilities	709,336	821,901
FUND BALANCE	<u>221,462</u>	<u>(274,513)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$930,798</u>	<u>\$ 547,388</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## GOVERNMENTAL FUND STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

---

	<b>Capital Project Fund</b>	
	<b>2008</b>	<b>2007</b>
REVENUES:		
Hudson Yards Infrastructure Corporation grant	\$3,020,580	\$ 6,185,907
RG WRY LLC funding	619,810	-
Interest income	<u>19,987</u>	<u>7,914</u>
Total revenues	<u>3,660,377</u>	<u>6,193,821</u>
EXPENSES:		
General and administrative	1,997,272	1,947,881
WRY environmental impact study expenses	619,810	-
Project expenditures	<u>547,320</u>	<u>3,377,116</u>
Total expenditures	<u>3,164,402</u>	<u>5,324,997</u>
NET CHANGE IN FUND BALANCE	495,975	868,824
FUND BALANCE — Beginning of year	<u>(274,513)</u>	<u>(1,143,337)</u>
FUND BALANCE — End of year	<u>\$ 221,462</u>	<u>\$ (274,513)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

---

### 1. ORGANIZATION

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 its 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 assets (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 assets (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.

The governmental fund financial statements reports receipt of revenues and expenditures for HYDC’s Project expenses and for the operations of HYDC.

As of June 30, 2008, HYDC had a receivable of \$619,810 from RG WRY LLC. HYDC had no general long-term liabilities. The short term liability identified as “Accrued WRY environmental impact study expenses” exactly equals the \$619,810 receivable mentioned above. Due to this short term liability and this receivable being equal, there are no differences between HYDC’s financial statements and its governmental fund financial statements for fiscal 2008, and no reconciliation is provided. Note 4, below, provides additional information on this receivable and short term liability.

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

---

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

**Capital Assets** — HYDC will not own any Project assets. Those assets will be 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 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 Revenue* ("GASB No. 48"). HYDC has neither sales nor pledges of receivables and future revenues nor extra-entity transfer of assets and future revenues. GASB No. 48 does not have an impact on the Corporation's financial statements.

HYDC has 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* ("GASB No. 49"). HYDC owns no land or other assets and has no operations other than financial. GASB No. 49 does not have an impact on the HYDC's financial statements.

### 3. CASH AND CASH EQUIVALENTS

At June 30, 2008 and 2007, HYDC's cash and cash equivalents consisted of bank deposits in the amount of \$279,098 and \$547,388, respectively, of which \$78,988 and \$447,388 was uninsured and uncollateralized and was exposed to custodial credit risk. As of June 30, 2008, HYDC's accounts were collateralized at a market value of \$100,110, in addition to the FDIC insurance.

### 4. FUNDING AGREEMENT FOR WESTERN RAIL YARD REZONING AND ASSOCIATED ACTIONS

In March 2008 the Metropolitan Transportation Authority ("MTA") and New York City Planning Commission ("CPC") entered into a Western Rail Yard Co-Lead Agency Agreement ("Agreement") that provides that HYDC shall assist CPC and MTA with regards to the retention of consultants to assist them in the technical areas of the environmental analysis in connection with the rezoning of the Western Rail Yard and associated actions. In furtherance of the Agreement, HYDC has entered into a consulting

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

---

### **4. FUNDING AGREEMENT FOR WESTERN RAIL YARD REZONING AND ASSOCIATED ACTIONS (CONTINUED)**

agreement with AKRF and a retainer agreement with Sive Paget & Riesel (collectively, the “Environmental Review Agreements”) for consulting and legal services relating to such environmental analysis. In May 2008, HYDC entered into a Funding Agreement with RG WRY LLC (“RG WRY”) pursuant to which RG WRY will fund HYDC to pay the costs of such consulting and legal services.

In HYDC’s financial statements for fiscal 2008, the estimated cost of such consulting and legal services as of June 30, 2008 is reflected as a liability, and RG WRY’s obligation to fund such costs is reflected as a receivable in the same amount.

\* \* \* \* \*