

***Hudson Yards
Development
Corporation***

Financial Statements

For the Years Ended June 30, 2009 and 2008

Independent Auditors' Report

HUDSON YARDS DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

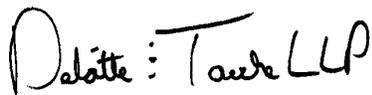
To the Members of the Board of Directors and Audit Committee of the Hudson Yards Development Corporation:

We have audited the accompanying financial statements of the governmental activities and the capital projects fund 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, 2009 and 2008, which collectively comprise HYDC's basic financial statements 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 the HYDC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, and the capital projects fund of HYDC as of June 30, 2009 and 2008, 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 6 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 17, 2009

HUDSON YARDS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009 and 2008. 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 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 terminal 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 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, 2009, 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 2009, and no reconciliation is provided.

HUDSON YARDS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

Financial Highlights and Overall Analysis — Financial Statements

The following summarizes HYDC's assets, liabilities and net assets as of June 30, 2009, 2008 and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>Variance</u>	
				<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
Assets:					
Unrestricted Cash and Cash Equivalents	\$ 141,916	\$ 279,098	\$ 547,388	\$ (137,182)	\$ (268,290)
Restricted Cash and Cash Equivalents	2,000,461	-	-	2,000,461	-
Receivable from RG WRY LLC	2,109,835	619,810	-	1,490,025	619,810
Prepaid Expenses	<u>4,954</u>	<u>31,890</u>	<u>-</u>	<u>(26,936)</u>	<u>31,890</u>
Total Assets:	<u>4,257,166</u>	<u>930,798</u>	<u>547,388</u>	<u>3,326,368</u>	<u>383,410</u>
Liabilities:					
Accrued Expenses	378,956	9,633	758,700	369,323	(749,067)
Accrued WRY Environmental Review Expenses	2,109,835	619,810	-	1,490,025	619,810
Accounts Payable	635,026	79,893	63,201	555,133	16,692
Deferred Security Study funds	2,000,000	-	-	2,000,000	-
Licensee Deposit	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Total Liabilities:	<u>5,128,817</u>	<u>709,336</u>	<u>821,901</u>	<u>4,419,481</u>	<u>(112,565)</u>
Net Assets / (Deficit):	<u>\$ (871,651)</u>	<u>\$ 221,462</u>	<u>\$ (274,513)</u>	<u>\$ (1,093,113)</u>	<u>\$ 495,975</u>

As of June 30, 2009, HYDC had assets consisting of unrestricted and restricted cash and cash equivalents, receivables, and prepaid expenses, and liabilities consisting of accrued expenses, accrued Western Rail Yard ("WRY") environmental review expenses, accounts payable, deferred funds, and a licensee deposit.

The net deficit balance from fiscal 2008 to 2009 is due to the timing of the accounts payable and accrued expenses which were not funded as of year end June 30, 2009. The total liabilities include the deferred security study funds which are 100% off-set by the restricted cash. These funds have been classified as deferred funds pending execution of the Security Study contract and the appropriate expenses related to the contract being incurred. HYDC established a separate bank account to segregate the funds received from EDC from other HYDC funds. See Note 5.

HUDSON YARDS DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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

The increase in total assets from fiscal 2008 to 2009 is due to the funds received from EDC as described in the preceding paragraph and the receivable from RG WRY LLC (“RG WRY”). The receivable from RG WRY is pursuant to the Funding Agreement between HYDC and RG WRY for WRY environmental review expenses, and is for fiscal 2009 accrued WRY environmental review expenses. HYDC continues to maintain a separate bank account to segregate the funds received from RG WRY from other HYDC funds.

The increase in liabilities from fiscal 2008 to 2009 is due to increases in accounts payable and accrued expenses, and the receipt of funds from EDC prior to the execution of the necessary contract for their restricted use. The increases in accounts payable and accrued expenses are primarily due to HYDC's assumption in fiscal 2009 from The City of New York of the retainer agreement (the “CLM Retainer Agreement”) with Carter, Ledyard & Millburn (“CLM”) for property acquisition services. See Note 7.

The increase in accrued liability for WRY environmental review expenses is due to the differential between the fixed amount of HYDC's monthly payments to AKRF and AKRF's actual expenses. See Note 8. The accrued liability for WRY environmental review expenses equals the fiscal 2009 receivable from RG WRY.

The liability identified as licensee deposit is a security deposit held by HYDC pursuant to a short-term license agreement (the “License Agreement”) between The City of New York and a private entity for the use of a City-owned building in Hudson Yards. Pursuant to the License Agreement, the deposit will be refunded in fiscal 2010. See Note 6.

HYDC has a net deficit for fiscal 2009 due to the increase in liabilities for this fiscal year. The change in the net asset/deficit balance between fiscal 2008 and fiscal 2009 is \$1,093,133, representing a change of 494%. Fiscal 2009's net deficit is due to the timing of the accounts payable and accrued expenses which were not funded as of year end, June 30, 2009.

The increase in total assets from fiscal 2007 to 2008 is primarily due to a new short-term receivable due from 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 Environmental Review 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, 2009 AND 2008

Financial Highlights and Overall Analysis — Financial Statements (Continued)

The following summarizes HYDC's revenue, expenses and changes in net assets (deficit) for the years ended June 30, 2009, 2008, and 2007.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>Variance</u>	
				<u>2009 vs. 2008</u>	<u>2008 vs. 2007</u>
Revenues:					
HYIC Payments	\$ 5,214,026	\$ 3,020,580	\$ 6,185,907	\$ 2,193,446	\$ (3,165,327)
Income for WRY Environmental Review	5,345,505	619,810	-	4,725,695	619,810
Interest from Security Study	22	-	-	22	-
Interest and Miscellaneous Income	<u>2,581</u>	<u>19,987</u>	<u>7,914</u>	<u>(17,406)</u>	<u>12,073</u>
Total Revenues	<u>10,562,134</u>	<u>3,660,377</u>	<u>6,193,821</u>	<u>6,901,757</u>	<u>(2,533,444)</u>
Expenses:					
General and Administrative	1,916,310	1,997,272	1,947,881	(80,962)	49,391
WRY Environmental Study Expenses	5,345,066	619,810	-	4,725,256	619,810
Project Expenditures	<u>4,393,871</u>	<u>547,320</u>	<u>3,377,116</u>	<u>3,846,551</u>	<u>(2,829,796)</u>
Total Expenses	<u>11,655,247</u>	<u>3,164,402</u>	<u>5,324,997</u>	<u>8,490,845</u>	<u>(2,160,595)</u>
Net Change in Fund (Deficit)/Balance	(1,093,113)	495,975	868,824	(1,589,088)	(372,849)
Net Assets/(Deficit), Beginning of Year	<u>221,462</u>	<u>(274,513)</u>	<u>(1,143,337)</u>	<u>495,975</u>	<u>868,824</u>
Net Assets/(Deficit), End of Year	<u>\$ (871,651)</u>	<u>\$ 221,462</u>	<u>\$ (274,513)</u>	<u>\$ (1,093,113)</u>	<u>\$ 495,975</u>

The increase in HYDC revenues by \$ 6,901,757 or 189% from fiscal 2008 to 2009 is due to increased revenues in several categories. The increase in HYIC payments was primarily due to HYDC's fiscal 2009 assumption of the CLM Retainer Agreement. Fiscal 2009 was the first year that HYDC was responsible for the costs under the Retainer Agreement, and therefore HYDC required funding from HYIC for such costs. The increase in RG WRY LLC funding from fiscal 2008 to 2009 is because most of the WRY environmental review work was performed during fiscal 2009 and RG WRY is funding that work.

HYDC's interest income decreased significantly from fiscal 2008 to 2009 because HYDC had less cash on hand to invest during fiscal 2009. A small amount of interest income was earned on the Security Study funds received from EDC on June 29, 2009. This interest income is maintained in the bank account established for the Security Study. The miscellaneous income is the fee received by HYDC as license administrator under the previously described License Agreement to cover HYDC's administrative expenses. See Note 6.

HYDC's general and administrative expenses decreased approximately 4% from fiscal 2008 to 2009. The significant increase in project expenses is primarily due to HYDC's assumption in fiscal 2009 from The City of the CLM Retainer Agreement. The significant increase in WRY Developer Funded expenses is because most of the WRY environmental review work was performed during fiscal 2009.

At the end of fiscal 2009, HYDC shows a net deficit balance of \$871,651, which is a decrease of 494% or \$1,093,113 over fiscal 2008.

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 MTA Railyard engineering study consulting contract (the "Railyard Engineering Study") that began in fiscal 2006. 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.

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.

The increase in HYDC's revenues and expenses from fiscal 2007 through fiscal 2009 is primarily due to HYDC's assumption of the CLM Retainer Agreement and HYDC's involvement in the WRY environmental review.

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.

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HUDSON YARDS DEVELOPMENT CORPORATION

STATEMENTS OF NET ASSETS (DEFICIT)

AS OF JUNE 30, 2009 AND 2008

	2009	2008
ASSETS:		
Unrestricted cash and cash equivalents	\$ 141,916	\$ 279,098
Restricted cash and cash equivalents	2,000,461	-
Receivable from RG WRY LLC	2,109,835	619,810
Prepaid expenses	<u>4,954</u>	<u>31,890</u>
Total assets	<u>4,257,166</u>	<u>930,798</u>
LIABILITIES:		
Accrued expenses	378,956	9,633
Accrued WRY environmental review expenses	2,109,835	619,810
Accounts payable	635,026	79,893
Deferred security study funds	2,000,000	-
License deposit	<u>5,000</u>	<u>-</u>
Total liabilities	<u>5,128,817</u>	<u>709,336</u>
NET (DEFICIT) ASSETS	<u>\$ (871,651)</u>	<u>\$ 221,462</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
REVENUES:		
Hudson Yards Infrastructure Corporation payments	\$ 5,214,026	\$ 3,020,580
Income for WRY environmental review	5,345,505	619,810
Interest from security study	22	0
Interest and miscellaneous income	<u>2,581</u>	<u>19,987</u>
Total revenues	<u>10,562,134</u>	<u>3,660,377</u>
EXPENSES:		
General and administrative	1,916,310	1,997,272
WRY environmental review expenses	5,345,066	619,810
Project expenditures	<u>4,393,871</u>	<u>547,320</u>
Total expenses	<u>11,655,247</u>	<u>3,164,402</u>
CHANGE IN NET (DEFICIT)/ASSETS	(1,093,113)	495,975
NET ASSETS/(DEFICIT) — Beginning of year	<u>221,462</u>	<u>(274,513)</u>
NET (DEFICIT)/ASSETS — End of year	<u>\$ (871,651)</u>	<u>\$ 221,462</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

GOVERNMENTAL FUND BALANCE SHEETS AS OF JUNE 30, 2009 AND 2008

	<u>Capital Projects Fund</u>	
	<u>2009</u>	<u>2008</u>
ASSETS:		
Unrestricted cash and cash equivalents	\$ 141,916	\$ 279,098
Restricted cash and cash equivalents	2,000,461	-
Receivable from RG WRY LLC	2,109,835	619,810
Prepaid expenses	<u>4,954</u>	<u>31,890</u>
Total assets	<u>4,257,166</u>	<u>930,798</u>
LIABILITIES:		
Accrued expenses	378,956	9,633
Accrued WRY environmental review expenses	2,109,835	619,810
Accounts payable	635,026	79,893
Deferred security study funds	2,000,000	-
License deposit	<u>5,000</u>	<u>-</u>
Total liabilities	5,128,817	709,336
FUND (DEFICIT)/BALANCE	<u>(871,651)</u>	<u>221,462</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,257,166</u>	<u>\$ 930,798</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, 2009 AND 2008

	<u>Capital Project Fund</u>	
	<u>2009</u>	<u>2008</u>
REVENUES:		
Hudson Yards Infrastructure Corporation payments	\$5,214,026	\$ 3,020,580
Income for WRY environmental review	5,345,505	619,810
Interest from security study	22	-
Interest and miscellaneous income	<u>2,581</u>	<u>19,987</u>
Total revenues	<u>10,562,134</u>	<u>3,660,377</u>
EXPENSES:		
General and administrative	1,916,310	1,997,272
WRY environmental study expenses	5,345,066	619,810
Project expenditures	<u>4,393,871</u>	<u>547,320</u>
Total expenditures	<u>11,655,247</u>	<u>3,164,402</u>
NET CHANGE IN FUND (DEFICIT)/BALANCE	(1,093,113)	495,975
FUND BALANCE/(DEFICIT) — Beginning of year	<u>221,462</u>	<u>(274,513)</u>
FUND (DEFICIT)/BALANCE — End of year	<u>\$ (871,651)</u>	<u>\$ 221,462</u>

See notes to financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (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 directors, 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, 2009, HYDC had a receivable of \$2,109,835 from RG WRY LLC. HYDC had no long-term liabilities. The liability identified as “Accrued WRY environmental review study expenses” equals the \$2,109,835 receivable mentioned above. Because such liability and such receivable are equal, there are no differences between HYDC’s financial statements and its governmental fund financial statements for fiscal 2009, and no reconciliation is provided. Note 8, below, provides additional information on this receivable and liability.

HUDSON YARDS DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008 (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 project management and financial. GASB No. 49 does not have an impact on the HYDC's financial statements.

HYDC has evaluated Statement of Governmental Accounting Standards No. 50 ("GASB No. 50") *Pension Disclosures*. This Statement amends Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution plans*, and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to require additional disclosures in notes to financial statements and required supplementary information. HYDC maintains a Defined Contribution Plan, under which the value of benefits is the fair market value of a participant's account balance. Therefore, HYDC has determined that GASB No. 50 does not have an impact on HYDC's financial statements.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 are effective for financial statements for periods beginning after June 15, 2009. HYDC has not completed the process of evaluating GASB 51, but does not expect GASB 51 to have a material impact on its financial statements.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. The requirements for GASB 53 are effective for financial statements for periods beginning after June 15, 2009. HYDC has not completed the process of evaluating the impact of GASB 53 on its financial statements.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances in the financial statements and requires that governments disclose their fund balance classifications, policies and procedures in the Notes. Fund balances will be classified as nonspendable, restricted, committed, assigned, and/or unassigned, as defined in the Statement. Additionally, GASB 54 refines the definitions of each of the governmental fund types, such as debt service and capital projects funds. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. HYDC has not completed the process of evaluating the impact of GASB 54 on its financial statements, but HYDC's governmental fund financial statement presentation will be impacted by the implementation of GASB 54.

Deferred Compensation Plan – HYDC employees were eligible to participate in a deferred compensation plan in accordance with the Internal Revenue Code Section 457. HYDC established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Accordingly, at June 30, 2009, plans assets and liabilities are not reflected in the accompanying financial statements.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2009 and 2008, HYDC's cash and cash equivalents consisted of bank deposits in the amount of \$2,142,377 and \$279,098, respectively. As of June 30, 2009, HYDC's accounts were insured by the FDIC at 100% of their value by virtue of the fact that HYDC's bank, JPMorgan Chase, elected to participate in the FDIC Transaction Account Guarantee Program, ("TAGP"). TAGP provides participating FDIC financial institutions unlimited FDIC insurance coverage on all non-interest bearing deposit transaction accounts and select interest bearing NOW accounts through December 31, 2009. The program covers all of HYDC's accounts.

4. DEFINED CONTRIBUTION PLAN

HYDC's Defined Contribution Pension Plan for Employees ("Pension Plan") is a single employer plan which was established October 12, 2006. The Pension Plan covers all HYDC employees who have completed one year of service if "exempt", and a minimum of 1,000 hours of service if "non-exempt", or have been previous City of New York agency ("City") or New York City Economic Development Corporation ("EDC") employees and completed a minimum of 2 years of full time employment or 2,750 hours of service.

The Pension Plan will consist of an amount for each eligible employee, calculated based on their gross compensation and length of service, according to the chart below. In the circumstances where a previous City or EDC employee is eligible, per the above paragraph, the employee’s prior service for The City or EDC shall be treated as one year of HYDC service for the purposes of Plan eligibility, allocation accrual and vesting.

Period of Service HYDC contribution percentage	Exempt: less than 1 year of service	Beginning with the 2nd year	Beginning with the 3rd year	Beginning with the 4th year
	Non-Exempt: less than 1,000 hours of service			
	0%	6%	12%	14%
Vesting percentage	0%	0%	50%	100%

HYDC has no other post-employment benefits.

5. FUNDING AGREEMENT FOR HUDSON YARDS MASTER SECURITY PLAN

In June 2009, the New York City Economic Development Corporation (“EDC”) and HYDC entered into a Funding Agreement (“Funding Agreement”) pursuant to which EDC will provide HYDC with up to \$2,000,000 for security consulting services. Pursuant to a May 7, 2009 resolution of the HYDC Board of Directors, HYDC intends to enter into a security consulting services agreement with T&M Protection Services subject to results of background investigation.

6. LICENSE AGREEMENT FOR PREMISES IN THE HUDSON YARDS AREA

In April 2009, The City of New York, as licensor, entered into a short term license agreement (the “License Agreement”) with Sarl Helenbeck (“Licensee”) for the use of a building located in the Hudson Yards Area. The License Agreement designated HYDC as License Administrator. In that capacity, HYDC was paid \$2,500 to cover administrative expenses, and held Licensee’s \$5,000 security deposit. As of June 30, 2009, the security deposit had not been refunded to Licensee.

7. RETROACTIVE ASSIGNMENT TO HYDC OF RETAINER ASSIGNMENT

In October 2008, the retainer agreement (the “Retainer Agreement”) between the New York City Law Department (“Law Department”) and Carter, Ledyard & Millburn (“CLM”) was assigned to HYDC, retroactive to October 1, 2006. HYDC amended the Retainer Agreement to increase the contract amount to \$8,000,000 and extend the term until September 30, 2011. Pursuant to such assignment and amendment, HYDC is now responsible for payments to CLM under the Retainer Agreement. Such payments are funded by HYIC.

8. 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 (“Co-Lead Agency Agreement”) which specifies that HYDC shall assist CPC and MTA with regard to the retention of consultants to assist with environmental analysis in connection with the rezoning of the Western Rail Yard and associated actions. In furtherance of the Co-Lead Agency Agreement, HYDC entered into a consulting agreement with AKRF and a retainer agreement with Sive Paget & Riesel. In May 2008, HYDC entered into a funding agreement (the “Funding Agreement”) with RG WRY LLC (“RG WRY”) pursuant to which RG WRY funds HYDC to pay the costs of such consulting and legal services.

Pursuant to the Funding Agreement and the AKRF consulting agreement, RG WRY funds HYDC to make fixed monthly payments to AKRF. Such fixed monthly funding during FY 2009 was less than expenses accrued by AKRF in FY 2009. That differential will be funded by RG WRY to HYDC for payment to AKRF according to a payment schedule to be jointly determined.

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