

# Hudson Yards Development Corporation

(A Component Unit of The City of New York)

Financial Statements as of and for the  
Years Ended June 30, 2010 and 2009, and  
Independent Auditors' Report

# HUDSON YARDS DEVELOPMENT CORPORATION

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## INDEPENDENT AUDITORS' REPORT

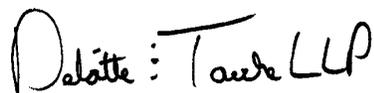
To the Members of the  
Board of Directors and Audit Committee of the  
Hudson Yards Development Corporation:

We have audited the accompanying financial statements of the governmental activities 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, 2010 and 2009, 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, 2010 and 2009, 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 16, 2010

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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### 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, 2010 and 2009. 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 government-wide financial statements; and (3) the governmental fund financial statements.

The government-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to provide information about HYDC as a whole, 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, 2010, all HYDC assets are currently available financial resources, and there are no general long-term liabilities. Therefore, there are no differences between the government-wide financial statements and its governmental fund financial statements for fiscal 2010, and no reconciliation is provided.

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

### Financial Highlights and Overall Analysis — Financial Statements

The following summarizes HYDC's assets, liabilities and net assets (deficit) as of June 30, 2010, 2009 and 2008.

	2010	2009	2008	Variance	
				2010/09	2009/08
<b>Assets:</b>					
Unrestricted cash and cash equivalents	\$ 189,224	\$ 141,916	\$279,098	\$ 47,308	\$ (137,182)
Restricted cash and cash equivalents	299,587	2,000,461	-	(1,700,874)	2,000,461
Restricted short-term investments	1,454,861	-	-	1,454,861	-
Receivable from Hudson Yards Infrastructure Corporation	93,558	-	-	93,558	-
Receivable from RG WRY LLC	-	2,109,835	619,810	(2,109,835)	1,490,025
Other receivables	81	-	-	81	-
Prepaid expenses	3,333	4,954	31,890	(1,621)	(26,936)
<b>Total assets</b>	<b>2,040,644</b>	<b>4,257,166</b>	<b>930,798</b>	<b>(2,216,522)</b>	<b>3,326,368</b>
<b>Liabilities:</b>					
Accrued project expenses	90,769	378,956	9,633	(288,187)	369,323
Accrued WRY environmental impact study expenses	-	2,109,835	619,810	(2,109,835)	1,490,025
Accounts payable	200,717	635,026	79,893	(434,309)	555,133
Deferred security study funds	1,746,875	2,000,000	-	(253,125)	2,000,000
Licensee deposit	-	5,000	-	(5,000)	5,000
<b>Total liabilities</b>	<b>2,038,361</b>	<b>5,128,817</b>	<b>709,336</b>	<b>(3,090,456)</b>	<b>4,419,481</b>
<b>Net assets/(deficit)</b>	<b>\$ 2,283</b>	<b>\$ (871,651)</b>	<b>\$221,462</b>	<b>\$ 873,934</b>	<b>\$(1,093,113)</b>

As of June 30, 2010, HYDC had assets consisting of unrestricted and restricted cash and cash equivalents, investments, receivables, and prepaid expenses, and liabilities consisting of accrued project expenses, accounts payable, and deferred funds.

Total assets decreased by \$2,216,522 or 52% from fiscal 2009 to fiscal 2010. The primary reason is that the Western Rail Yard ("WRY") environmental review project, funded pursuant to the Funding Agreement between HYDC and RG WRY LLC ("RG WRY"), was completed in fiscal 2010, and the prior year RG WRY receivable balance of \$2,109,835 was fully settled in fiscal 2010. (See Note 6.)

Restricted cash and cash equivalents decreased and investments increased from fiscal 2009 to fiscal 2010 because funds received in the prior year from New York City Economic Development Corporation ("EDC") for the Security Study (the "Study") which were not required for expenditures in fiscal 2010 were invested.

The receivable from Hudson Yards Infrastructure Corporation ("HYIC") for \$93,558 is for condemnation counsel expenses that were incurred but not yet paid by HYDC as of the end of fiscal 2010. These expenses are property acquisition-related expenses which HYIC funds HYDC for out of its Public Amenities Account after the expenses are incurred by HYDC and reported to HYIC.

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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

Liabilities decreased by \$3,090,456 or 60% from fiscal 2009 to 2010 due to decreases in accrued expenses, accounts payable, and deferred security study funds. The primary reason is that the WRY environmental review project, funded pursuant to the Funding Agreement between HYDC and RG WRY, was completed in fiscal 2010, and the prior year RG WRY payable balance of \$2,109,835 was fully settled in fiscal 2010. The remaining decreases in accounts payable and accrued expenses from fiscal 2009 to 2010 are primarily due to a greater proportion of property acquisition work taking place in fiscal 2009. Liabilities also include the deferred Study funds which decreased by \$253,125 in fiscal 2010. These funds are classified as deferred pending incurring appropriate expenses related to the Study. Deferred Study funds decreased as funds were recognized as income once expenses were incurred in fiscal 2010. (See Note 7.)

The net asset balance increased by \$873,934 for fiscal 2010. The change in the net asset/deficit balance between fiscal 2009 and fiscal 2010 is a result of the changes in assets and liabilities as noted above.

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 WRY environmental review expenses, accounts payable, deferred funds, and a licensee deposit.

The increase in total assets from fiscal 2008 to 2009 was due to the funds received from New York City Economic Development Corporation (“EDC”) for the Security Study and the receivable from RG WRY. The receivable from RG WRY is for fiscal 2009 accrued WRY environmental review expenses.

Liabilities increased from fiscal 2008 to 2009 due to increases in accounts payable and accrued expenses, and the receipt of Security Study 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 fiscal 2009 assumption of the CLM Retainer Agreement for property acquisition services from The City of New York. (See Note 8.)

The increase in accrued liability for WRY environmental review expenses from fiscal 2008 to 2009 was due to the differential between the fixed amount of HYDC's monthly payments to AKRF and AKRF's actual expenses. 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 that was 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 was refunded in fiscal 2010. (See Note 9.)

HYDC has a net deficit for fiscal 2009. The change in the net asset/deficit balance between fiscal 2008 and fiscal 2009 was \$1,093,133 as a result of the changes noted above.

# HUDSON YARDS DEVELOPMENT CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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

The following summarizes HYDC's revenue, expenses and changes in net assets (deficit) as of June 30, 2010, 2009, and 2008.

	2010	2009	2008	Variance	
				2010/09	2009/08
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$4,254,425	\$ 5,214,026	\$3,020,580	\$ (959,601)	\$ 2,193,446
Income for WRY environmental impact study	665,194	5,345,505	619,810	(4,680,311)	4,725,695
Income for security study	253,125	22	-	253,103	22
Investment income	6,241	-	-	6,241	-
Interest and miscellaneous income	<u>2,146</u>	<u>2,581</u>	<u>19,987</u>	<u>(435)</u>	<u>(17,406)</u>
Total revenue	<u>5,181,131</u>	<u>10,562,134</u>	<u>3,660,377</u>	<u>(5,381,003)</u>	<u>6,901,757</u>
Expenses:					
General and administrative	1,955,349	1,916,310	1,997,272	39,039	(80,962)
WRY environmental impact study expenses	665,633	5,345,066	619,810	(4,679,433)	4,725,256
Project expenditures	1,433,090	4,393,871	547,320	(2,960,781)	3,846,551
Security study expenses	<u>253,125</u>	<u>-</u>	<u>-</u>	<u>253,125</u>	<u>-</u>
	<u>4,307,197</u>	<u>11,655,247</u>	<u>3,164,402</u>	<u>(7,348,050)</u>	<u>8,490,845</u>
Net change in fund (deficit)/balance	873,934	(1,093,113)	495,975	1,967,047	(1,589,088)
Net assets/(deficit), beginning of year	<u>(871,651)</u>	<u>221,462</u>	<u>(274,513)</u>	<u>(1,093,113)</u>	<u>495,975</u>
Net assets/(deficit), end of year	<u>\$ 2,283</u>	<u>\$ (871,651)</u>	<u>\$ 221,462</u>	<u>\$ 873,934</u>	<u>\$ (1,093,113)</u>

The decrease in HYDC revenues by \$5,381,003 or 51% from fiscal 2009 to fiscal 2010 is due to decreased revenues in several categories. The decrease in HYIC payments is primarily due to a decrease in property acquisition work in fiscal 2010. The decrease in income for WRY Environmental Review from fiscal 2009 to 2010 is primarily due to the fact that a majority of the WRY environmental review work was performed during fiscal 2009 and was completed with final payments made in fiscal 2010. (See Note 6.) The increase from fiscal 2009 to 2010 in income for the security study is due to the Study commencing in fiscal 2010. Previously deferred funds are recognized as income as Study expenses are incurred. The Study funds which were not required for expenditures in fiscal 2010 were invested and such investments generated \$6,241 of investment income. Interest and miscellaneous income is comprised of bond proceed interest income of \$836 and restricted interest income of \$1,310 earned on the Study funds received.

HYDC's expenses significantly decreased from fiscal 2009 to fiscal 2010, by \$7,348,050 or 63%. General and administrative expenses increased only slightly by approximately 2%. The significant decrease in WRY environmental impact study expenses from fiscal 2009 to 2010 is primarily due to the completion of the WRY environmental review work mid-way through fiscal 2010. In addition, the decrease in project expenditures is due to a greater percent age of property acquisition services being performed in fiscal 2009 than in fiscal 2010. Fiscal 2010 was the first year for the Study. Study expenses are off-set by the Study income recognized in fiscal 2010.

At the end of fiscal 2010, HYDC shows an increase in the net assets balance as a result of the changes in revenues and expenses noted above.

As of June 30, 2009 HYDC's revenues had increased by \$ 6,901,757 or 189% from fiscal 2008. 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.

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 in fiscal 2009 is the fee received by HYDC as license administrator under the previously described License Agreement to cover HYDC's administrative expenses. (See Note 9.)

HYDC's expenses significantly increased from fiscal 2008 to 2009 due to the increase in project expenses 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 due to most of the WRY environmental review work being performed in fiscal 2009. HYDC's General and Administrative expenses decreased approximately 4% from fiscal 2008 to 2009.

At the end of fiscal 2009, HYDC showed a decrease in the net asset balance of \$871,651, from fiscal 2008. This was the result of the changes in revenues and expenses noted above.

As there are no reconciliation items between the government-wide financial statements and the governmental fund financial statements explained in the previous overview section, separate overall analysis of governmental fund financial statements is not necessary.

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# HUDSON YARDS DEVELOPMENT CORPORATION

## STATEMENTS OF NET ASSETS (DEFICIT) AS OF JUNE 30, 2010 AND 2009

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	2010	2009
ASSETS:		
Unrestricted cash and cash equivalents	\$ 189,224	\$ 141,916
Restricted cash and cash equivalents	299,587	2,000,461
Restricted short-term investments	1,454,861	-
Receivable from Hudson Yards Infrastructure Corporation	93,558	-
Receivable from RG WRY LLC	-	2,109,835
Other receivables	81	-
Prepaid expenses	<u>3,333</u>	<u>4,954</u>
 Total assets	 <u>2,040,644</u>	 <u>4,257,166</u>
LIABILITIES:		
Accrued project expenses	90,769	378,956
Accrued WRY environmental impact study expenses	-	2,109,835
Accounts payable	200,717	635,026
Deferred security study funds	1,746,875	2,000,000
Licensee deposit	<u>-</u>	<u>5,000</u>
 Total liabilities	 <u>2,038,361</u>	 <u>5,128,817</u>
 NET ASSETS (DEFICIT)	 <u>\$ 2,283</u>	 <u>\$ (871,651)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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	2010	2009
REVENUES:		
Hudson Yards Infrastructure Corporation payments	\$ 4,254,425	\$ 5,214,026
Income for WRY environmental impact study	665,194	5,345,505
Income security study funding	253,125	22
Investment income	6,241	-
Restricted interest income	1,310	-
Interest and miscellaneous income	836	2,581
	<u>5,181,131</u>	<u>10,562,134</u>
Total revenues		
EXPENSES:		
General and administrative	1,955,349	1,916,310
WRY environmental impact study expenses	665,633	5,345,066
Project expenditures	1,433,090	4,393,871
Security study expenses	253,125	-
	<u>4,307,197</u>	<u>11,655,247</u>
Total expenses		
CHANGE IN NET ASSETS	873,934	(1,093,113)
NET (DEFICIT) ASSETS — Beginning of year	<u>(871,651)</u>	<u>221,462</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 2,283</u>	<u>\$ (871,651)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## GOVERNMENTAL FUND BALANCE SHEETS AS OF JUNE 30, 2010 AND 2009

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	2010	2009
ASSETS:		
Unrestricted cash and cash equivalents	\$ 189,224	\$ 141,916
Restricted cash and cash equivalents	299,587	2,000,461
Restricted short-term investments	1,454,861	-
Receivable from Hudson Yards Infrastrucutre Corporaation	93,558	-
Receivable from RG WRY LLC	-	2,109,835
Other receivables	81	-
Prepaid expenses	3,333	4,954
	<hr/>	<hr/>
Total assets	2,040,644	4,257,166
LIABILITIES:		
Accrued project expenses	90,769	378,956
Accrued WRY environmental impact study expenses	-	2,109,835
Accounts payable	200,717	635,026
Deferred security study funds	1,746,875	2,000,000
License deposit	-	5,000
	<hr/>	<hr/>
Total liabilities	2,038,361	5,128,817
FUND BALANCE	<hr/>	<hr/>
	2,283	(871,651)
TOTAL LIABILITIES AND FUND BALANCE	<hr/>	<hr/>
	\$ 2,040,644	\$ 4,257,166

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, 2010 AND 2009

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	2010	2009
REVENUES:		
Hudson Yards Infrastructure Corporation payments	\$ 4,254,425	\$ 5,214,026
Income for WRY environmental impact study	665,194	5,345,505
Income security study funding	253,125	22
Unrealized investment income	6,241	-
Restricted interest income	1,310	-
Interest and miscellaneous income	<u>836</u>	<u>2,581</u>
Total revenues	<u>5,181,131</u>	<u>10,562,134</u>
EXPENSES:		
General and administrative	1,955,349	1,916,310
WRY environmental impact study expenses	665,633	5,345,066
Project expenditures	1,433,090	4,393,871
Security study expenses	<u>253,125</u>	<u>-</u>
Total expenditures	<u>4,307,197</u>	<u>11,655,247</u>
NET CHANGE IN FUND BALANCE	873,934	(1,093,113)
FUND BALANCE — Beginning of year	<u>(871,651)</u>	<u>221,462</u>
FUND BALANCE — End of year	<u>\$ 2,283</u>	<u>\$ (871,651)</u>

See notes to financial statements.

# HUDSON YARDS DEVELOPMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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### 1. ORGANIZATION

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 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 Governmental Accounting Standards Board (“GASB”) Statement 14, *The Financial Reporting Entity*, 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 government-wide 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 standards. 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 report receipt of revenues and expenditures for HYDC’s Project expenses and for the operations of HYDC. As there are no differences between HYDC’s government-wide financial statements and its governmental fund financial statements for fiscal 2010, no reconciliation is provided.

**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.

**Accounting Standards** — In February 2009, GASB issued GASB 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 Statement No. 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, 2010 and 2009, plan assets and liabilities are not reflected in the accompanying financial statements.

### 3. CASH AND CASH EQUIVALENTS

As of June 30, 2010 and 2009, HYDC’s cash consisted of bank deposits in the amounts of \$244, 890 and \$2,142,377, respectively. At June 30, 2010 HYDC’s accounts were covered 100% by Federal Deposit Insurance Corporation (“FDIC”) insurance. Balances in excess of \$250,000 are required to be collateralized at 105% of value. On June 30, 2010 JPMorgan Chase Bank, N.A. maintained \$17,508 in collateral for HYDC.

As of June 30, 2010 HYDC’s restricted cash equivalents consisted of \$250,000. This is the market value of a Study funds investment that will mature within three months from the date of purchase. These funds are restricted for the Study.

### 4. INVESTMENTS

HYDC’s investments consisted of the following at June 30, 2010 and 2009:

	2010	2009
Restricted Investments:		
United States Treasury Bill	\$ 199,986	-
Federal National Mortgage Association discount notes	1,254,875	-
Federal Home Loan Bank discount notes	<u>250,000</u>	<u>-</u>
Total restricted investments including restricted cash equivalents	\$ 1,704,861	\$ -
Less: restricted cash equivalents (see Note 3)	<u>250,000</u>	<u>-</u>
Total restricted investments	<u>\$ 1,454,861</u>	<u>\$ -</u>

HYDC’s management invests Study funds which are not immediately required for the Study. All investments shall be invested in Eligible Investments as defined in the Trust Indenture, dated as of December 1, 2006, by and between the Hudson Yards Infrastructure Corporation and U.S. Bank, National Association, as trustee.

Investments are reported at estimated fair value as of the financial statement date.

## 5. DEFINED CONTRIBUTION PLAN

HYDC’s Defined Contribution Pension Plan for Employees (“Pension Plan”) is a single employer plan which was established on October 12, 2006. The Pension Plan covers all HYDC employees who have completed one year of service if exempt, (employees not entitled to overtime pay), and a minimum of 1,000 hours of service if non-exempt, (employees entitled to over-time pay), or have been previous City of New York agency (“The City”) or New York City Economic Development Corporation (“EDC”) employees and completed a minimum of two 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 his or her 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	Exempt: Less Than	Beginning	Beginning	Beginning
	One Year of Service			
	Nonexempt: Less Than	2nd Year	3rd Year	4th Year
	1,000 Hours of Service			
HYDC contribution percentage	- %	6 %	12 %	14 %
Vesting percentage	-	-	50	100

HYDC has no other postemployment benefits.

## 6. 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 funded HYDC to make fixed monthly payments to AKRF. Such fixed monthly funding during FY 2010 was less than expenses accrued by AKRF in FY 2010 and in FY 2009. That differential was funded by RG WRY in addition to any outstanding expenses accrued by Sive Padgett & Riesel in FY 2010.

The environmental analysis in connection with the rezoning of the Western Rail Yard and associated actions was completed in the fall of 2009. The separate bank account set up for the RG WRY funds was closed as of June 30, 2010.

**7. FUNDING AGREEMENT FOR HUDSON YARDS MASTER SECURITY PLAN**

In June 2009, the EDC and HYDC entered into a Funding Agreement (“Funding Agreement”) pursuant to which EDC provided HYDC with up to \$2,000,000 for security consulting services (the “Study”). Pursuant to a May 7, 2009 resolution of the HYDC Board of Directors, HYDC entered into a security consulting services agreement with T&M Protection Services effective October 1, 2009.

**8. RETROACTIVE ASSIGNMENT TO HYDC OF RETAINER ASSIGNMENT**

In October 2008, the retainer agreement (the “Retainer Agreement”) between the New York City 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.

**9. 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 (the “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 the Licensee’s \$5,000 security deposit. As of June 30, 2010, the security deposit has been refunded to Licensee.

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