Hudson Yards Development Corporation

Financial Statements
For the Years Ended June 30, 2011 and 2010
Independent Auditors' Report

HU7DSON YARDS DEVELOPMENT CORPORATION

TABLE OF CONTENTS

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, 2011 and 2010, 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, 2011 and 2010, 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 xxx

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, 2011 and 2010. It should be read in conjunction with HYDC's government-wide 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 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 funds 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, in accordance with Governmental Accounting Standards Board ("GASB") standards. 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. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the latest cash flows.

HYDC's governmental funds 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, 2011 and 201, all of HYDC's 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 funds statements of revenues, expenditures and changes in fund balances and balance sheets as of and for the years ended June 30, 2011 and 2010, and no reconciliations are provided.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summarizes HYDC's assets, liabilities and net assets (deficit) as of June 30, 2011, 2010 and 2009.

	2011	2010	2009	Variance 2011/10	Variance 2010/09
Assets:					
Unrestricted cash and cash equivalents	$ 20,405	$ 98,454	$ 12,711	$ (78,049)	$ 85,743
Restricted cash and cash equivalents	152,946	390,357	2,129,667	(237,411)	(1,739,310)
Restricted short-term investments	-	1,454,861	-	(1,454,861)	1,454,861
Receivable from Hudson Yards Infrastructure Corporation	103,017	93,558	-	9,459	93,558
Receivable from RG WRY LLC	-	-	2,109,835	-	(2,109,835)
Other receivables	769	81	-	688	81
Prepaid expenses	2,664	3,333	4,954	(669)	(1,621)
Total assets	279,801	2,040,644	4,257,167	(1,760,843)	(2,216,523)
Liabilities:					
Accounts payable	11,847	10,752	11,981	1,095	(1,229)
Accrued operating expenses	72,762	70,285	59,523	2,477	10,762
Accrued project expenses	217,373	210,449	942,478	6,924	(732,029)
Accrued WRY environmental impact study expenses	-	-	2,109,835	-	(2,109,835)
Deferred security study funds	-	1,746,875	2,000,000	(1,746,875)	(253,125)
Licensee deposit	-	-	5,000	-	(5,000)
Total liabilities	301,982	2,038,361	5,128,817	(1,736,379)	(3,090,456)
Net assets (deficit)	$ (22,181)	2,283	$ (871,650)	$ (24,464)	$ 873,933

As of June 30, 2011, HYDC had assets consisting of unrestricted and restricted cash and cash equivalents, receivables, and prepaid expenses, and liabilities consisting of accrued project expenses and accounts payable.

There is a significant decrease in total assets from fiscal 2010 to 2011. The Security Study (the "Study") contract was fulfilled in fiscal 2011 leaving a remaining balance of deferred funds. These remaining funds were returned to the New York City Economic Development Corporation ("EDC") before the close of fiscal 2011 (see Note 7).

The receivable from Hudson Yards Infrastructure Corporation ("HYIC") for $103,017 is for condemnation counsel expenses that were incurred but not yet paid by HYDC at the end of fiscal 2011 (see Note 8). These property acquisition related expenses are funded by HYIC out of its Public Amenities Account, after the expenses are incurred by HYDC and reported to HYIC. These expenses were paid by HYDC in fiscal 2012 and funded by HYIC, resulting in the receivable and a fiscal year-end accrual included in accrued project expenses.

The decrease in liabilities from fiscal 2010 to 2011 is due to elimination of the deferred Study fund liability. Study funds were classified as deferred pending incurring appropriate expenses related to the Study. All expenses for the Study were incurred in fiscal 2010 and 2011. Deferred Study funds were recognized as income to the extent expenses were incurred, and the remaining balance was returned to EDC in fiscal 2011 (see Note 7).

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

HYDC has a deficit net asset balance at the end of fiscal 2011. The change in the net asset (deficit) balance between fiscal 2010 and fiscal 2011 is $22,181 and is a result of the changes in assets and liabilities noted above.

As of June 30, 2010, total assets decreased from fiscal 2009 to 2010. The primary reason is the Western Rail Yard ("WRY") environmental review project, funded pursuant to the Funding Agreement between HYDC and RG WRY LLC ("RG WRY"), which was completed in fiscal 2010. The RG WRY receivable was fully settled in fiscal 2010 (see Note 6).

The receivable from 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 for which HYDC is funded by HYIC out of its Public Amenities Account, after the expenses are incurred by HYDC and reported to HYIC, resulting in a fiscal year-end accrual.

The decrease in liabilities from fiscal 2009 to 2010 is due to decreases in accrued project expenses, accounts payable and deferred Study funds. The decreases in accounts payable and accrued project expenses from fiscal 2009 to 2010 are primarily due to a greater amount of property acquisition work which took place in fiscal 2009. Liabilities also include the deferred Study funds, which are offset by the combination of restricted cash and investment accounts. 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).

HYDC had an increase in the net asset balance for fiscal 2010. The change in the net asset (deficit) balance between fiscal 2009 and fiscal 2010 was $873,933 and was a result of the changes in assets and liabilities noted above.

The following summarizes HYDC's revenue, expenses and changes in net assets (deficit) for the years ended June 30, 2011, 2010, and 2009.

				Variance	
	2011	2010	2009	2011/10	2010/09
Revenues:					
Hudson Yards Infrastructure Corporation payments	$ 3,197,711	$ 4,254,425	$ 5,214,026	$ (1,056,714)	$ (959,601)
Income for WRY environmental review	-	665,194	5,345,505	(665,194)	(4,680,311)
Income for security study	414,412	254,435	22	159,977	254,413
Interest, investment and miscellaneous income	395	7,077	2,581	(6,682)	4,496
Total Revenue:	3,612,518	5,181,131	10,562,134	(1,568,613)	(5,381,003)
Expenses:					
General and administrative	2,009,819	1,955,349	1,916,310	54,470	39,039
Project expenditures	1,205,288	1,433,090	4,393,871	(227,802)	(2,960,781)
WRY developer funded expenses	-	665,633	5,345,066	(665,633)	(4,679,433)
Security study expenses	421,875	253,125	-	168,750	253,125
Total Expenses:	3,636,982	4,307,197	11,655,247	(670,215)	(7,348,050)
Net Change in Net Assets (Deficit)	(24,464)	873,934	(1,093,113)	(898,398)	1,967,047
Net Assets (Deficit), Beginning of Year	2,283	(871,651)	221,462	873,934	(1,093,113)
Net Assets (Deficit), End of Year	$ (22,181)	$ 2,283	$ (871,651)	$ (24,464)	$ 873,934

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

For fiscal 2011, the decrease in HYDC revenues by $1,568,613 or 30% from fiscal 2010 to 2011 is due to decreased revenues in several categories. The decrease in HYIC payments is primarily due to a decrease in condemnation counsel services in fiscal 2011. The decrease in income for WRY Environmental Review from fiscal 2010 to 2011 is due to the completion and final payments made for the WRY environmental impact study in fiscal 2010 (see Note 6). The significant increase in income from fiscal 2010 to 2011 for the Study is due to a majority of the Study being completed in fiscal 2011. Previously deferred Study funds were recognized as income as related expenses were incurred. Interest, investment and miscellaneous income decreased by $6,683 from fiscal 2010 to 2011. The prime difference is the decrease in interest earned on the Study funds in fiscal 2011.

HYDC's expenses decreased overall from fiscal 2010 to 2011, however, general and administrative expenses increased slightly by approximately 3%. The WRY environmental impact study was completed in fiscal 2010 and there were no expenses in fiscal 2011. In addition, the 16% decrease in Project expenditures is due to the reduction in condemnation counsel services required in fiscal 2011. Fiscal 2011 was the final year for the Study, and as in fiscal 2010, Study expenses were offset by the Study interest and income recognized in fiscal 2011.

At the end of fiscal 2011, HYDC shows a decrease in the net assets balance as a result of the changes in revenues and expenses noted above.

For fiscal 2010, the decrease in HYDC revenues by $5,381,003 or 51% from fiscal 2009 to 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 the 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 significant increase from fiscal 2009 to 2010 in income and interest for the Study is due to the Study commencing in fiscal 2010. Previously deferred funds were recognized as income as Study expenses were 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 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 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 percentage of property acquisition services performed in fiscal 2009 than in fiscal 2010. Fiscal 2010 was the first year for the Study. Study expenses are offset 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.

Financial Highlights and Overall Analysis — Governmental Funds Financial Statements

HYDC reports governmental activity using two funds: (1) a general fund ("GF") and (2) a Capital Projects fund ("CPF"). In fiscal year 2011, HYDC implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). GASB 54 resulted in the creation of a Capital Projects fund and the restatement of those activities that were formerly presented in the General fund and are now reported under a Capital Projects fund. HYDC now reports in the Capital Projects fund Project related expenses and those funds which are received strictly to pay for Project expenses.

The following summarizes the changes in the GF balances for the years ended June 30, 2011, 2010, and 2009:

				Variance	
	2011	**2010**	**2009**	**2011/10**	**2010/09**
Revenues:					
Hudson Yards Infrastructure Corporation payments	$ 1,927,822	$ 2,034,184	$ 1,633,427	$ (106,362)	$400,757
Interest and miscellaneous income	395	836	2,581	(441)	(1,745)
Total revenue	1,928,217	2,035,020	1,636,008	(106,803)	399,012
Expenses					
General and administrative	2,009,819	1,955,349	1,916,310	54,470	39,039
Total expenses	2,009,819	1,955,349	1,916,310	54,470	39,039
Net Change in Fund (Deficit) Balance	(81,602)	79,671	(280,302)	(161,273)	359,973
Fund Balance, Beginning of Year	20,831	(58,840)	221,462	79,671	(280,302)
Fund Balance, End of Year	$ (60,771)	$ 20,831	$ (58,840)	$ (81,602)	$ 79,671

The GF decreased between fiscal years 2011 and 2010 and increased between fiscal years 2010 and 2009 as noted by the variances above. The decrease between fiscal 2010 and 2011 is due to changes in personnel expenses. The increase between fiscal 2009 and 2010 is due to an increase in HYIC payments offset by increased consultant and office equipment expenses and changes in personnel. Operating expenses between fiscal years 2009, 2010 and 2011 increased by the variances noted above, representing increases of 3% and 2% between each fiscal year. The increase in expenses for fiscal 2011 is due to increases in occupancy and office equipment expenses and the recognition of accrued employee vacation pay.

The deficit fund balance at the end of fiscal 2011 is due to more administration expenses incurred than revenue received for the year ended June 30, 2011. In fiscal 2010, a deficit fund balance from fiscal 2009 became a positive fund balance due to administration expenses being less than the revenue received for the year.

Financial Highlights and Overall Analysis — Governmental Funds Financial Statements (Continued)

The following summarizes the changes in the CPF balances for the years ended June 30, 2011, 2010, and 2009:

				Variance	
	2011	**2010**	**2009**	**2011/10**	**2010/09**
Revenues:					
Hudson Yards Infrastructure Corporation payments	$ 1,269,889	$ 2,220,241	$ 3,580,598	$ (950,352)	$ (1,360,357)
Income for WRY environmental impact study	-	665,194	5,345,506	(665,194)	(4,680,312)
Income for security study	414,412	254,435	22	159,977	254,413
Interest, investment and miscellaneous income	-	6,241	-	(6,241)	6,241
Total revenue	1,684,301	3,146,111	8,926,126	(1,461,810)	(5,780,015)
Expenses:					
Project expenditures	1,205,288	1,433,090	4,393,871	(227,802)	(2,960,781)
WRY environmental study expenses	-	665,633	5,345,066	(665,633)	(4,679,433)
Security study expenses	421,875	253,125	-	168,750	253,125
Total expenses	1,627,163	2,351,848	9,738,937	(724,685)	(7,387,089)
Net Change in Fund Balance (Deficit)	57,138	794,263	(812,811)	(737,125)	1,607,074
Fund Balance (Deficit), Beginning of Year	(18,548)	(812,811)	-	794,263	(812,811)
Fund Balance (Deficit), End of Year	$ 38,590	$ (18,548)	$ (812,811)	$ 57,138	$ 794,263

For the fiscal year ended June 30, 2011, the total CPF revenue decreased by $1.4 million from fiscal 2010. This is primarily due to a reduction in payments for condemnation counsel expenses and the termination of payments for the WRY environmental impact study in fiscal 2010. There was an increase in Study expenses for fiscal 2011 as the majority of the work was accomplished in this fiscal year. Capital Project expenses have been declining since fiscal 2009 due to the reduction in condemnation counsel services over the last three years and the end of the environmental impact study in fiscal 2010. The positive fund balance at the end of fiscal 2011 indicates that CPF funds had been received for project expenses incurred, however those expenses had not been paid as of June 30, 2011

Financial Highlights and Overall Analysis — Governmental Funds Financial Statements (Continued)

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2011, 2010 and 2009:

				Variance	
Assets:	2011	2010	2009	2011/10	2010/09
Unrestricted cash and cash equivalents	$ 20,405	$ 98,454	$ 12,711	$ (78,049)	$ 85,743
Other receivables	769	81	-	688	81
Prepaid expenses	2,664	3333	4,954	(669)	(1,621)
Total assets	$ 23,838	$ 101,868	$ 17,665	$ (78,030)	$ 84,203
Liabilities:					
Accounts payable and accrued operating expenses	$ 84,609	$ 81,037	$ 71,504	$ 3,572	$ 9,533
Licensee deposit	-	-	5,000	-	(5,000)
Total liabilities	84,609	81,037	76,504	3,572	4,533
Fund Balance:				-	-
Nonspendable prepaid expenses	2,664	3,333	4,954	(669)	(1,621)
Unassigned	(63,435)	17,498	(63,793)	(80,933)	81,291
Total fund balance	(60,771)	20,831	(58,839)	(81,602)	79,670
Total Liabilities and Fund Balance:	$ 23,838	$ 101,868	$ 17,665	$ (85,174)	$ 75,137

GF total assets decreased between fiscal year 2011 and 2010 by $78,030 and increased between fiscal years 2010 and 2009 by $84,203. The decrease in assets between fiscal 2010 and 2011 is due to a slight increase in general and administrative expenses paid from HYIC funding during fiscal 2011. The increase in assets between fiscal 2009 and 2010 is due to fewer expenses being paid than originally budgeted.

GF liabilities have remained fairly constant from fiscal 2009 to 2011. These liabilities are primarily made up of accrued payroll expenses that were paid at the beginning of the following fiscal year. The licensee deposit liability was settled in fiscal 2010 (see Note 9).

The GF fund balance contains prepaid assets that are classified as nonspendable. The unassigned balance and the total GF deficit balance indicate general and administrative liabilities, which at June 30, 2011, were greater than current GF assets.

Financial Highlights and Overall Analysis — Governmental Funds Financial Statements (Continued)

The following summarizes the CPF assets, liabilities and fund balances as of June 30, 2011, 2010 and 2009:

				Variance	
	2011	2010	2009	2011/10	2010/09
Assets:					
Restricted cash and cash equivalents	$ 152,946	$ 390,357	$2,129,667	$ (237,411)	$ (1,739,310)
Restricted short-term investments	-	1,454,861	-	(1,454,861)	1,454,861
Receivable from Hudson Yards Infrastructure Corporation	103,017	93,558	-	9,459	93,558
Receivable from RG WRY LLC	-	-	2,109,835	-	(2,109,835)
Total assets	$ 255,963	$ 1,938,776	$4,239,502	$ (1,682,813)	$ (2,300,726)
Liabilities:					
Accrued project expenses	$ 217,373	$ 210,449	$ 942,478	$ 6,924	$ (732,029)
Accrued WRY environmental impact study expenses	-	-	2,109,835	-	(2,109,835)
Deferred security study funds	-	1,746,875	2,000,000	(1,746,875)	(253,125)
Total liabilities	217,373	1,957,324	5,052,313	(1,739,951)	(3,094,989)
Fund Balance:					
Unassigned	-	(18,548)	(812,811)	18,548	794,263
Restricted to Capital Projects	38,590	-	-	38,590	-
Total fund balance	38,590	(18,548)	(812,811)	57,138	794,263
Total Liabilities and Fund Balance:	$ 255,963	$ 1,938,776	$4,239,502	$ (1,682,813)	$ (2,300,725)

CPF assets decreased between fiscal years 2010 and 2011, and 2009 and 2010 as noted by the variances above. The decrease between fiscal 2010 and 2011 is due to the short-term Study funds that were previously invested being liquidated in fiscal 2011, with the remaining unspent balance being returned to EDC. The decrease in total assets between fiscal 2009 and 2010 is due to the culmination of the WRY environmental impact study and receivable amount being settled. The receivable from HYIC increased from fiscal 2010 to 2011 due to greater condemnation counsel expenses that were incurred at the end of the fiscal year. CPF liabilities have decreased by 89% from fiscal 2010 to 2011. This decrease is solely due to returning the unused, previously deferred, Study funds to EDC. Between fiscal 2009 and 2010, the decrease is due to the full payment of the WRY environmental impact study accrued expenses.

The CPF has a restricted for capital projects asset balance at the end of fiscal 2011. HYDC carried a CPF cash amount at the end of the year due to previously incurred project expenses that had been reimbursed by HYIC, but not paid as of June 30, 2011. Any positive fund balance in the CPF is classified as restricted.

This financial report is designed to provide a general overview of HYDC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Hudson Yards Development Corporation, 225 West 34th Street, Suite 1402, New York, NY 10122.

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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 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 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 funds 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.

As there are no differences between HYDC's government-wide financial statements and its governmental fund financial statements as of and for the years ended June 30, 2011 and 2010, no reconciliations are provided.

HYDC uses two governmental funds for reporting its activities: a capital projects fund ("CPF"), and a general fund ("GF"). The CPF accounts for the resources for payment of Project related expenses, and the GF is used to account for and reports all financial resources not accounted for in the CPF, generally HYDC's administrative expenses.

Under GASB 54, fund balances are classified as either 1) nonspendable, 2) restricted, 3) committed 4) assigned, or 5) unassigned.

The Board of Directors ("Board") constitutes HYDC's highest level of decision-making authority. Resolutions adopted by the Board which constrain fund balances for a specific purpose are accounted for and reported as committed for such purpose unless, and until, a subsequent resolution altering the commitment is adopted by the Board.

When both restricted and unrestricted resources are available for use for a specific purpose, HYDC will use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, HYDC will use committed resources first, then assigned resources, and then unassigned resources as they are needed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Resources constrained for capital projects in accordance with certain funding agreements are classified as restricted on the statements of net assets (deficit) and the governmental funds balance sheets.

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 were effective for periods beginning after June 15, 2010. GASB 54 did not have any financial impact on HYDC but did change HYDC's governmental fund financial statement presentation.

As a result of HYDC implementing GASB 54, it established a general fund to report its administrative expenses and restated the administrative expenses of the prior period in accordance with the Statement.

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 June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement clarifies the accounting for a number of financial instruments including allocated and unallocated insurance contracts. The Statement is effective for financial statements beginning after June 15, 2010. GASB 59 did not have an impact on HYDC's financial statements.

- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements.* The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011, but is not expected to have an impact on HYDC as it has not entered into such agreements.

- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34.* The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on HYDC or its status as a blended component unit of The City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements.* The Statement incorporates a large volume of Financial Accounting Standards Board and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The statement is effective for financial statement periods beginning after December 15, 2011. HYDC has not completed the process of the evaluation of GASB 62, but does not expect it to have an impact on its financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* is effective for financial statements for periods beginning after December 15, 2011. The Statement establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. HYDC has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of HYDC's statement of position and components thereof, with no overall financial impact.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision,* is effective for financial statements for periods beginning after June 15, 2011. The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. HYDC has not completed the process of evaluating GASB 64, but does not expect it to have an impact on its financial statements.

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, 2011 and 2011, plan assets and liabilities are not reflected in the accompanying financial statements.

Reclassification – Certain items in the June 30, 2010 financial statements have been reclassified to conform to the June 30, 2011 financial statement presentation.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2011 and 2010, HYDC's cash consisted of bank deposits in the amount of $173,351 and $244,890, respectively. At year-end, HYDC's accounts were insured up to $250,000. Balances in excess are required to be collateralized at 105% of value. On June 30, 2011 and 2010, JP Morgan Chase Bank N.A. maintained $10,955 and $17,508, respectively, in collateral for HYDC. This JP Morgan Chase Bank program covers HYDC's three active checking accounts.

As of June 30, 2010, HYDC's restricted cash equivalents consisted of $250,000. This is the fair value of a Security Study (the "Study") funds investment that matured in fiscal 2011. These funds were restricted for the Study.

4. INVESTMENTS

HYDC's investments consisted of the following as of June 30, 2011 and 2010:

	2011	2010
Restricted Investments:		
United States Treasury Bills	$ -	$ 199,986
Federal National Mortgage Association discount notes	-	1,254,875
Federal Home Loan Bank discount notes	-	250,000
Total restricted investments including restricted cash equivalents	-	1,704,861
Less: restricted cash equivalents	-	250,000
Total restricted investments	$ -	$ 1,454,861

All investments were sold during the year ended June 30, 2011 to fund the Study expenses and any unexpended funds were returned to the New York City Economic Development Corporation ("EDC").

5. 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, (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 ("City") or EDC employees and completed a minimum of 2 years of full time employment or 2,750 hours of service.

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

For the years ended June 30, 2011 and 2010, HYDC contributed $154,199 and $150,942, respectively, to the Pension Plan.

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 fiscal 2010 was less than expenses accrued by AKRF in fiscal 2010 and in fiscal 2009. That differential was funded by RG WRY in addition to any outstanding expenses accrued by Sive Padget & Riesel in fiscal 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 pursuant to which EDC provided 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 has entered into a security consulting services agreement with T&M Protection Services effective October 1, 2009. The Study was completed in fiscal 2011 and the balance of unspent funds was returned to EDC.

8. 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") to provide legal, appraisal, title search and other associated services ("Services"), was assigned to HYDC, retroactive to October 1, 2006. HYDC amended the Retainer Agreement to increase the contract amount to $8,000,000, then again in April 2011, to $10,000,000 and extended the term until the earlier of the completion of the Services or the performance of Services in the amount of the $10,000,000. 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. LEASE COMMITMENTS

HYDC has entered into a lease agreement to rent office space in New York City. The lease agreement is for a term of ten years and expires in July 2016. The lease agreement requires minimum annual rental payments plus escalation charges.

9. LEASE COMMITMENTS (CONTINUED)

HYDC is obligated, pursuant to such lease agreement, to approximate future non-cancelable minimum annual rental payments for fiscal years ended after June 30, 2011 as indicated below:

2012	$	243,000
2013		251,000
2014		258,000
2015		266,000
2016		274,000
	$	1,292,000

For the years ended June 30, 2011 and 2010, rent expense amounted to approximately $233,000 and $224,000, respectively.

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