HUDSON YARDS DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2012 and 2011

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

HUDSON YARDS DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2012 AND 2011

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Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of Hudson Yards Development Corporation ("HYDC"), a component unit of The City of New York, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of HYDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Hudson Yards Development Corporation as of June 30, 2012 and 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 2 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Marks Paneth & Shron LLP

New York, NY
September 28, 2012

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HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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, 2012 and 2011. 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, 2012 and 2011, 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, 2012 and 2011, and no reconciliations are provided.

HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summarizes HYDC's assets, liabilities and net assets (deficit) as of June 30, 2012, 2011 and 2010.

	2012	2011	2010	Variance 2012/11	Variance 2011/10
ASSETS:					
Unrestricted cash and cash equivalents	$ 488,392	$ 20,405	$ 98,454	$ 467,987	$ (78,049)
Restricted cash and cash equivalents	99,250	152,946	390,357	(53,696)	(237,411)
Restricted short-term investments	-	-	1,454,861	-	(1,454,861)
Receivable from Hudson Yards Infrastructure Corporation	51,325	103,017	93,558	(51,692)	9,459
Receivable from National Endowment for the Arts	100,000	-	-	100,000	-
Other receivables	337	769	81	(432)	688
Prepaid expenses and other assets	18,391	2,664	3,333	15,727	(669)
Total Assets	757,695	279,801	2,040,644	477,894	(1,760,843)
LIABILITIES:					
Accounts payable	12,065	11,847	10,752	218	1,095
Accrued operating expenses	107,962	72,762	70,285	35,200	2,477
Accrued project expenses	211,985	217,373	210,449	(5,388)	6,924
Deferred security study funds	-	-	1,746,875	-	(1,746,875)
Total Liabilities	332,012	301,982	2,038,361	30,030	(1,736,379)
NET ASSETS:					
Restricted for capital projects	38,590	38,590	-	-	38,590
Unrestricted	387,093	(60,771)	2,283	447,864	(63,054)
Total Net Assets	$ 425,683	$ (22,181)	$ 2,283	$ 447,864	$ (24,464)

As of June 30, 2012, HYDC had assets consisting of unrestricted and restricted cash and cash equivalents, receivables, prepaid expenses, and other assets, and liabilities consisting of accrued project expenses and accounts payable.

There is an increase in total assets from fiscal 2011 to 2012 of $477,894. HYDC received first quarter fiscal 2013 funding on June 29, 2012, resulting in an increase in unrestricted cash and cash equivalents. There is a receivable of $100,000 in restricted funds from the United States National Endowment for the Arts ("NEA"), to fund expenses incurred for the Culture Shed project (see Note 7). The other asset is the recognition of the HYDC office lease security deposit (see Note 8).

The receivable from Hudson Yards Infrastructure Corporation ("HYIC") for $51,325 is for condemnation counsel expenses that were incurred but not yet paid by HYDC at the end of fiscal 2012 (see Note 6). These expenses will be paid by HYDC in fiscal 2013.

There is an increase in liabilities from fiscal 2011 to 2012 due to accrued Culture Shed and operating expenses. The Culture Shed liability is offset by the NEA grant receivable.

HYDC had a net asset balance at the end of fiscal 2012. The change in the net asset balance between fiscal 2011 and fiscal 2012 is $447,864 and is a result of the changes in assets and liabilities noted above.

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

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 was 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 5).

The receivable from Hudson Yards Infrastructure Corporation ("HYIC") for $103,017 was for condemnation counsel expenses that were incurred but not yet paid by HYDC at the end of fiscal 2011 (see Note 6). These property acquisition-related expenses are funded by HYIC. The funding was received and the expenses were paid by HYDC in fiscal 2012.

The decrease in liabilities from fiscal 2010 to 2011 was due to the 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 5).

HYDC had 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 was $24,464 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, 2012, 2011, and 2010.

				Variance	
	2012	2011	2010	2012/11	2011/10
Revenues:					
Hudson Yards Infrastructure Corporation payments	$ 3,026,642	$ 3,197,711	$ 4,254,425	$ (171,069)	$ (1,056,714)
Income for WRY environmental review	-	-	665,194	-	(665,194)
Income for security study	-	414,412	254,435	(414,412)	159,977
National Endowment for the Arts grant	100,000	-	-	100,000	-
Interest, investment and miscellaneous income	16,404	395	7,077	16,009	(6,682)
Total revenues	3,143,046	3,612,518	5,181,131	(469,472)	(1,568,613)
Expenses:					
General and administrative	1,978,531	2,009,819	1,955,349	(31,288)	54,470
Project expenditures	616,541	1,205,288	1,433,090	(588,747)	(227,802)
WRY developer funded expenses	-	-	665,633	-	(665,633)
Security study expenses	110	421,875	253,125	(421,765)	168,750
Culture shed expenses	100,000	-	-	100,000	-
Total Expenses	2,695,182	3,636,982	4,307,197	(941,800)	(670,215)
Change in net assets	447,864	(24,464)	873,934	472,328	(898,398)
Net assets - Beginning of year	(22,181)	2,283	(871,651)	(24,464)	873,934
Net assets - End of year	$ 425,883	$ (22,181)	$ 2,283	$ 447,864	$ (24,464)

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

For fiscal 2012, the decrease in HYDC total revenues by $469,472 from fiscal 2011 is primarily due to the Security Study being completed in fiscal 2011. The decrease is also due to reduced funding requested by HYDC to fund administrative and project expenditures in fiscal 2012. While the overall funding from HYIC was lower in fiscal 2012, there was an additional payment of $320,185 received from HYIC in June 2012 for the first quarter of fiscal 2013 which is was recognized as revenue. In addition, HYDC recognized $100,000 in revenue from the NEA. This revenue funds expenses incurred for the Culture Shed (see Note 7).

HYDC's expenses decreased from fiscal 2011 to 2012 by $941,800, including a decrease of 49% in project expenditures due to the reduction in condemnation counsel services required in fiscal 2012. HYDC accrued $100,000 in Culture Shed expenses.

At the end of fiscal 2012, HYDC showed an increase in the net assets balance of $447,864 as a result of the changes in revenues and expenses noted above and is primarily the result of the additional payment of $320,185 from HYIC recognized as revenue in the current year for which the operating expenses will be incurred in fiscal 2013.

For fiscal 2011, the decrease in HYDC revenues by $1,568,613 or 30% from fiscal 2010 to 2011 was due to decreased revenues in several categories. The decrease in HYIC payments was 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 was due to the completion and final payments made for the WRY environmental review in fiscal 2010. 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 $6,682 from fiscal 2010 to 2011. The prime difference was 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 review was completed in fiscal 2010 and there were no expenses in fiscal 2011. In addition, the 16% decrease in project expenditures was 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 showed a deficit net assets balance as a result of the changes in revenues and expenses noted above.

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.

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

The following summarizes the changes in the GF balances for the years ended June 30, 2012, 2011, and 2010:

	2012	2011	2010	Variance 2012/11	Variance 2011/10
Revenues:					
Hudson Yards Infrastructure Corporation payments	$ 2,409,991	$ 1,927,822	$ 2,034,184	$ 482,169	$ (106,362)
Interest and miscellaneous income	16,404	395	836	16,009	(441)
Total revenue	2,426,395	1,928,217	2,035,020	498,178	(106,803)
Expenditures:					
General and administrative	1,978,531	2,009,819	1,955,349	(31,288)	54,470
Total expenditures	1,978,531	2,009,819	1,955,349	(31,288)	54,470
Net Change in Fund Balance	447,864	(81,602)	79,671	529,466	(161,273)
Fund Balance, Beginning of Year	(60,771)	20,831	(58,840)	(81,602)	79,671
Fund Balance, End of Year	$ 387,093	$ (60,771)	$ 20,831	$ 447,864	$ (81,602)

The GF total revenues increased by $498,178 between fiscal 2011 and 2012, due to an increase in HYIC payments as there were six payments received from HYIC for general and administrative expenses as compared to four payments in the prior year. There was a 2% decrease in GF expenses between 2011 and 2012, due to one-time fiscal 2011 expense in office equipment and administration. The fund balance at the end of fiscal 2012 is due to the increase in revenue received over the amount of administration expenses incurred as of June 30, 2012.

The GF revenues decreased between fiscal 2010 and 2011 due to less funds requested by HYDC during the fiscal year and due to a cash balance at fiscal year-end 2010. The GF expenses increased by 3% between fiscal 2010 and 2011, due to changes in personnel and occupancy expenses.

The fund balance of $387,093 as of June 30, 2012 is a result of the changes in revenues and expenses noted above and is primarily the result of the additional payment of $320,185 from HYIC recognized as revenue in the current year for which the operating expenses will be incurred in fiscal 2013.

The deficit fund balance at the end of fiscal 2011 was due to more administration expenses incurred than revenue received for the fiscal year.

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

The following summarizes the changes in the CPF balances for the years ended June 30, 2012, 2011, and 2010:

	2012	2011	2010	Variance 2012/11	Variance 2011/10
Revenues:					
Hudson Yards Infrastructure Corporation payments	$ 616,651	$ 1,269,889	$ 2,220,241	$ (653,238)	$ (950,352)
Income for WRY environmental impact study	-	-	665,194	-	(665,194)
Income for security study	-	414,412	254,435	(414,412)	159,977
National Endowment for the Arts grant	100,000	-	-	100,000	-
Interest, investment and miscellaneous income	-	-	6,241	-	(6,241)
Total revenue	716,651	1,684,301	3,146,111	(967,650)	(1,461,810)
Expenditures:					
Project expenditures	616,541	1,205,288	1,433,090	(588,747)	(227,802)
WRY environmental study expenses	-	-	665,633	-	(665,633)
Security study expenses	110	421,875	253,125	(421,765)	168,750
Culture Shed expenses	100,000	-	-	100,000	-
Total expenditures	716,651	1,627,163	2,351,848	(910,512)	(724,685)
Net Change in Fund Balance	-	57,138	794,263	(57,138)	(737,125)
Fund Balance, Beginning of Year	38,590	(18,548)	(812,811)	57,138	794,263
Fund Balance, End of Year	$ 38,590	$ 38,590	$ (18,548)	$ -	$ 57,138

For the fiscal year ended June 30, 2012, the total CPF total revenue decreased by $967,650 from fiscal 2011. This is primarily due to a reduction in payments for condemnation counsel expenses and the termination of income for the Study. Capital project expenses have been declining since fiscal 2010 due to the reduction in condemnation counsel services over the last three years and the Study's completion in fiscal 2011. The positive fund balance at the end of fiscal 2012 indicates that capital project funds had been received for the project; however, project expenses have not been incurred to use the balance.

For the fiscal year ended June 30, 2011, the total CPF revenue decreased by $1,461,810 from fiscal 2010. This is primarily due to a reduction in payments for condemnation counsel expenses and the termination of payments for the Western Rail Yards ("WRY") environmental review 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. CPF 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 capital project funds had been received for the project during the fiscal year; however, project expenses in connection with these funds had not been incurred as of June 30, 2011.

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

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2012, 2011 and 2010:

	2012	2011	2010	Variance 2012/11	Variance 2011/10
Assets:					
Unrestricted cash and cash equivalents	$ 488,392	$ 20,405	$ 98,454	$ 467,987	$ (78,049)
Other receivables	337	769	81	(432)	688
Prepaid expenses and other assets	18,391	2,664	3,333	15,727	(669)
Total Assets	$ 507,120	$ 23,838	$ 101,868	$ 483,282	$ (78,030)
Liabilities:					
Accounts payable and accrued operating expenses	$ 120,027	$ 84,609	$ 81,037	$ 35,418	$ 3,572
Total Liabilities	120,027	84,609	81,037	35,418	3,572
Fund Balance:					
Nonspendable prepaid expenses and other assets	18,391	2,664	3,333	15,727	(669)
Unassigned	368,702	(63,435)	17,498	432,137	(80,933)
Total Fund Balance	$ 387,093	$ (60,771)	$ 20,831	$ 447,864	$ (81,602)

The GF total assets increased as of June 30, 2012; this increase is due to receiving the deposit of first quarter fiscal 2013 funding on June 29, 2012, and recognizing HYDC office lease security deposit. GF total liabilities include payable and accrued expenses and unpaid vendor invoices. The higher unrestricted cash at year-end contributes to the positive total fund balance.

GF total assets decreased between fiscal year 2011 and 2010 by $78,030. The decrease in assets was due to an increase in general and administrative expenses paid from HYIC funding during fiscal 2011. The positive fund balance in fiscal 2010 was due to less administrative expenses being incurred than were originally funded by HYIC.

GF liabilities have remained fairly constant from fiscal 2010 to 2011. These liabilities are primarily made up of accrued payroll expenses that were paid at the beginning of the following fiscal year. The GF fund balance contains prepaid assets that are classified as nonspendable. The negative unassigned balance and the total GF deficit fund balance indicate general and administrative liabilities, which at June 30, 2011, were greater than current GF assets.

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

The following summarizes the CPF assets, liabilities and fund balances as of June 30, 2012, 2011 and 2010:

	2012	2011	2010	Variance 2012/11	Variance 2011/10
Assets:					
Restricted cash and cash equivalents	$ 99,250	$ 152,946	$ 390,357	$ (53,696)	$ (237,411)
Restricted short-term investments	-	-	1,454,861	-	(1,454,861)
Receivable from Hudson Yards Infrastructure Corporation	51,325	103,017	93,558	(51,692)	9,459
Receivable from National Endowment for the Arts	100,000	-	-	100,000	-
Total Assets	$ 250,575	$ 255,963	$ 1,938,776	$ (5,388)	$ (1,682,813)
Liabilities:					
Accrued project expenses	$ 211,985	$ 217,373	$ 210,449	$ (5,388)	$ 6,924
Deferred security study funds	-	-	1,746,875	-	(1,746,875)
Total Liabilities	211,985	217,373	1,957,324	(5,388)	(1,739,951)
Fund Balance:					
Unassigned	-	-	(18,548)	-	18,548
Restricted for capital projects	38,590	38,590	-	-	38,590
Total Fund Balance	$ 38,590	$ 38,590	$ (18,548)	$ -	$ 57,138

CPF assets decreased slightly between fiscal years 2011 and 2012 due to a reduction in condemnation counsel reimbursements and in the HYIC receivable, The CPF asset balance also includes the NEA receivable. The liabilities balance as of June 30, 2012 shows little variance from the previous fiscal year. The fiscal 2012 liabilities include condemnation counsel expenses incurred and a $100,000 accrued project expenses for the Culture Shed.

CPF assets decreased between fiscal 2010 and 2011 as noted by the $1,682,813 variance. The decrease between fiscal 2010 and 2011 was due to Study funds that were previously invested being liquidated in fiscal 2011, with the remaining unspent balance being returned to EDC. The receivable from HYIC increased from fiscal 2010 to 2011 due to greater condemnation counsel expenses being incurred at the end of the fiscal year. CPF liabilities decreased by 89% between fiscal 2010 and 2011. This decrease is solely due to returning the unused, previously deferred Study funds to EDC.

The CPF has a "restricted to capital projects" fund balance at the end of fiscal 2012. HYDC carried a CPF fund balance at the end of the year indicating that the CPF received funds for the project; however project expenses had not been incurred as of June 30, 2012. 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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HUDSON YARDS DEVELOPMENT CORPORATION
STATEMENTS OF NET ASSETS (DEFICIT)
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Unrestricted cash and cash equivalents	$ 488,392	$ 20,405
Restricted cash and cash equivalents	99,250	152,946
Receivable from Hudson Yards Infrastructure Corporation	51,325	103,017
Receivable from National Endowment for the Arts	100,000	-
Other receivables	337	769
Prepaid expenses	2,336	2,664
Other assets	16,055	-
TOTAL ASSETS	$ 757,695	$ 279,801
LIABILITIES		
Accounts payable	$ 12,065	$ 11,847
Accrued operating expenses	107,962	72,762
Accrued project expenses	211,985	217,373
TOTAL LIABILITES	332,012	301,982
NET ASSETS (DEFICIT)		
Restricted for capital projects	38,590	38,590
Unrestricted	387,093	(60,771)
TOTAL NET ASSETS (DEFICIT)	$ 425,683	$ (22,181)

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES		
Hudson Yards Infrastructure Corporation payments	$ 3,026,642	$ 3,197,711
Income for security study funding	-	414,412
National Endowment for Arts grant	100,000	-
Interest, investment and miscellaneous income	16,404	395
TOTAL REVENUE	3,143,046	3,612,518
EXPENSES:		
General and administrative	1,978,531	2,009,819
Project expenses	616,541	1,205,288
Security study expenses	110	421,875
Culture Shed expenses	100,000	-
TOTAL EXPENSES	2,695,182	3,636,982
CHANGE IN NET ASSETS	447,864	(24,464)
NET ASSETS (DEFICIT) - Beginning of year	(22,181)	2,283
NET ASSETS (DEFICIT) - End of year	$ 425,683	$ (22,181)

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Unrestricted cash and cash equivalents	$ 488,392	$ -	$ 488,392
Restricted cash and cash equivalents	-	99,250	99,250
Receivable from Hudson Yards Infrastructure Corporation	-	51,325	51,325
Receivable from National Endowment for the Arts	-	100,000	100,000
Other receivables	337	-	337
Prepaid expenses	2,336	-	2,336
Other assets	16,055	-	16,055
TOTAL ASSETS	$ 507,120	$ 250,575	$ 757,695
LIABILITIES			
Accounts payable	$ 12,065	$ -	$ 12,065
Accrued operating expenses	107,962	-	107,962
Accrued project expenses	-	211,985	211,985
TOTAL LIABILITIES	120,027	211,985	332,012
FUND BALANCE			
Nonspendable prepaid expenses and other assets	18,391	-	18,391
Unassigned	368,702	-	368,702
Restricted for capital projects	-	38,590	38,590
TOTAL FUND BALANCE	387,093	38,590	425,683
TOTAL LIABILITIES AND FUND BALANCE	$ 507,120	$ 250,575	$ 757,695

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Unrestricted cash and cash equivalents	$ 20,405	$ -	$ 20,405
Restricted cash and cash equivalents	-	152,946	152,946
Receivable from Hudson Yards Infrastructure Corporation	-	103,017	103,017
Other receivables	769	-	769
Prepaid expenses	2,664	-	2,664
TOTAL ASSETS	$ 23,838	$ 255,963	$ 279,801
LIABILITIES			
Accounts payable	$ 11,847	$ -	$ 11,847
Accrued operating expenses	72,762	-	72,762
Accrued project expenses	-	217,373	217,373
TOTAL LIABILITIES	84,609	217,373	301,982
FUND BALANCE			
Nonspendable prepaid expenses and other assets	2,664	-	2,664
Unassigned	(63,435)	-	(63,435)
Restricted for capital projects	-	38,590	38,590
TOTAL FUND BALANCE	(60,771)	38,590	(22,181)
TOTAL LIABILITIES AND FUND BALANCE	$ 23,838	$ 255,963	$ 279,801

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Hudson Yards Infrastructure Corporation payments	$ 2,409,991	$ 616,651	$ 3,026,642
National Endowment for the Arts grant		100,000	100,000
Interest, investment and miscellaneous income	16,404	-	16,404
TOTAL REVENUES	2,426,395	716,651	3,143,046
EXPENDITURES			
General and administrative	1,978,531	-	1,978,531
Project expenditures	-	616,541	616,541
Security study expenditures	-	110	110
Culture Shed expenditures	-	100,000	100,000
TOTAL EXPENDITURES	1,978,531	716,651	2,695,182
NET CHANGE IN FUND BALANCE	447,864	-	447,864
FUND BALANCE - Beginning of year	(60,771)	38,590	(22,181)
FUND BALANCE - End of year	$ 387,093	$ 38,590	$ 425,683

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Hudson Yards Infrastructure Corporation payments	$ 1,927,822	$ 1,269,889	$ 3,197,711
Income for security study funding	-	414,412	414,412
Interest, investment and miscellaneous income	395	-	395
TOTAL REVENUES	1,928,217	1,684,301	3,612,518
EXPENDITURES			
General and administrative	2,009,819	-	2,009,819
Project expenditures	-	1,205,288	1,205,288
Security study expenditures	-	421,875	421,875
TOTAL EXPENDITURES	2,009,819	1,627,163	3,636,982
NET CHANGE IN FUND BALANCE	(81,602)	57,138	(24,464)
FUND BALANCE - Beginning of year	20,831	(18,548)	2,283
FUND BALANCE - End of year	$ (60,771)	$ 38,590	$ (22,181)

See accompanying notes to the financial statements.

NOTE 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.

NOTE 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 Governmental Accounting Standards Board ("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, 2012 and 2011, 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.

The requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("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. GASB 54 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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
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.

Cash Equivalents — HYDC considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

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.

Revenue Recognition — HYDC recognizes Hudson Yards Infrastructure Corporation ("HYIC") payments for operating expenses as revenue when received. HYIC payments for project expenses and other grants are recognized as revenues when the related project expenses are incurred.

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 November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* ("GASB 60"). GASB 60 establishes the financial reporting for service concession agreements. GASB 60 is effective for financial statement periods beginning after December 15, 2011. As HYDC has not entered into any service concession agreements, GASB 60 is not expected to have an impact on HYDC's financial statements.

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

NOTE 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* ("GASB 62"). GASB 62 incorporates a large volume of Financial Accounting Standards Board and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for U.S. state and local governments. GASB 62 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* ("GASB 63"), is effective for financial statements for periods beginning after December 15, 2011. GASB 63 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* ("GASB 64"), is effective for financial statements for periods beginning after June 15, 2011. GASB 64 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.

- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 establishes accounting and reporting standards that reclassifies certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources as it also recognizes certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB 65 are effective for financial statement for periods beginning December 15, 2012. HYDC has not completed the process of evaluating GASB 65, 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.

- In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 an Amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). GASB 66 enhances the usefulness of financial reports by resolving conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Govemmental Fund Type Definitions*, and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements.* The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. HYDC has not completed the process of evaluating GASB 66, but does not expect it to have an impact on its financial statements.

- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The provisions of GASB 68 are effective for financial statements for periods beginning after June 15, 2014. HYDC has not completed the process of evaluating GASB 68, but does not expect it to have an impact on its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 and 2011, plan assets and liabilities are not reflected in the accompanying financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2012 and 2011, HYDC's cash consisted of bank deposits in the amount of $587,642 and $173,351, respectively. As of June 30, 2012 and 2011, Hudson Yards Development Corporation's accounts were FDIC insured up to $250,000. Balances in excess of $250,000 are required to be collateralized at 105% of value, as outlined in Section 105 and Section 106 of the New York State Finance Law. As of June 30, 2012 and 2011, JPMorgan Chase Bank, N.A. maintained a total of $360,673 and $10,955, respectively, in collateral for HYDC's three active accounts.

NOTE 4 – DEFINED CONTRIBUTION PLAN

HYDC's Defined Contribution Pension Plan for Employees (the "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 overtime 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 New York City Economic Development Corporation ("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.

	Exempt: less than 1 year of service			
Period 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, 2012 and 2011, HYDC contributed $152,339 and $154,199, respectively, to the Pension Plan.

HYDC has no other post-employment benefits.

NOTE 5 – FUNDING AGREEMENT FOR THE 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 security study was completed in fiscal 2011 and the balance of unspent funds was returned to EDC.

NOTE 6 – 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. For the years ended June 30, 2012 and 2011, condemnation counsel expenses paid to CLM amounted to $559,545 and $1,111,478, respectively, and such amounts are included in Project expenses in the accompanying financial statements.

NOTE 7 – GRANT FUNDING AGREEMENT FOR HUDSON YARDS CULTURE SHED

In September 2010, the United States National Endowment for the Arts ("NEA") awarded HYDC a grant up to $100,000 to support the second design phase of the Culture Shed, a facility that is a central component of the Hudson Yards project. The funds are restricted for use as described in the NEA grant application and budget. The period of support is from September 1, 2010 to August 31, 2012. Expenses for the Culture Shed were incurred in fiscal 2012. The funding request was submitted for fiscal 2012 resulting in the account receivable at year-end.

NOTE 8 – LEASE COMMITMENTS

HYDC has entered into a lease agreement to rent office space at 225 W. 34th Street in New York City. The lease agreement is for a term of ten years and expires in July 2016. In 2006, HYDC paid a lease security deposit which will be held by the building landlord for the term of the lease. The lease agreement requires minimum annual rental payments plus escalation charges.

HYDC is obligated, pursuant to the lease agreement, to make the approximate future minimum annual rental payments for fiscal years ending after June 30, 2012 as indicated below:

2013	$ 251,000
2014	258,000
2015	266,000
2016	274,000
	$ 1,049,000

For the years ended June 30, 2012 and 2011, rent expense amounted to approximately $255,000 and $233,000, respectively.

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