



HUDSON YARDS DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2014 and 2013

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

HUDSON YARDS DEVELOPMENT CORPORATION

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED JUNE 30, 2014 AND 2013

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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, which comprise the government-wide statements of net position as of June 30, 2014 and 2013 and the statements of activities for the years then ended, and the governmental funds balance sheets as of June 30, 2014 and 2013 and the statements of revenues, expenditures and changes in fund balances for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 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.

A handwritten signature in dark ink, reading "Mark Paneth CPA". The signature is written in a cursive, flowing style.

New York, NY
September 29, 2014

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

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, 2014 and 2013. 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 West 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 the following parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements and (4) notes to the financial statements.

The government-wide financial statements, which include the statements of net position (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 position (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, 2014 and 2013, 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, 2014 and 2013, and no reconciliations are provided.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summarizes HYDC's assets, liabilities and net assets (deficit) as of June 30, 2014, 2013 and 2012.

	2014	2013	2012	Variance	
				2014/13	2013/12
ASSETS:					
Unrestricted cash and cash equivalents	\$ 85,170	\$ 60,907	\$ 488,392	\$ 24,263	\$ (427,485)
Restricted cash and cash equivalents	-	38,590	99,250	(38,590)	(60,660)
Receivable from Hudson Yards Infrastructure Corporation	140,639	203,595	51,325	(62,956)	152,270
Receivable from National Endowment for the Arts	-	-	100,000	-	(100,000)
Other receivables	33,016	857	337	32,159	520
Prepaid expenses and other assets	2,486	19,295	18,391	(16,809)	904
Total Assets	<u>261,311</u>	<u>323,244</u>	<u>757,695</u>	<u>(61,933)</u>	<u>(434,451)</u>
LIABILITIES:					
Accounts payable	11,195	47,529	12,065	(36,334)	35,464
Accrued operating expenses	74,599	81,240	107,962	(6,641)	(26,722)
Accrued project expenses	138,708	171,165	211,985	(32,457)	(40,820)
Total Liabilities	<u>224,502</u>	<u>299,934</u>	<u>332,012</u>	<u>(75,432)</u>	<u>(32,078)</u>
NET POSITION (DEFICIT):					
Restricted for capital projects	-	38,590	38,590	(38,590)	-
Unrestricted	<u>36,809</u>	<u>(15,280)</u>	<u>387,093</u>	<u>52,089</u>	<u>(402,373)</u>
Total Net Position	<u>\$ 36,809</u>	<u>\$ 23,310</u>	<u>\$ 425,683</u>	<u>\$ 13,499</u>	<u>\$ (402,373)</u>

As of June 30, 2014, HYDC had assets consisting of unrestricted cash and cash equivalents, receivables, prepaid expenses, and other assets, and liabilities consisting of accounts payable and accrued operating and Project expenses. There was a decrease in total assets from fiscal 2013 to 2014 of \$61,933 primarily due to a decrease in receivables from the Hudson Yards Infrastructure Corporation ("HYIC"). The prepaid and other assets are the recognition of fiscal year 2015 expenses which were paid for in fiscal year 2014. The other receivables consist of the lease security deposit and receivables from the sale of office furniture and reimbursement for costs incurred during HYDC's office relocation (see Note 6).

There is a receivable of \$140,639 from HYIC as of June 30, 2014. Of this receivable, \$1,931 is for general operating costs for fiscal 2014 and \$138,708 is for condemnation counsel expenses and project development consultants that were incurred but not yet paid by HYDC at the end of fiscal year 2014. These expenses were paid by HYDC in fiscal year 2015.

There was a decrease in liabilities from fiscal 2013 to 2014 primarily due to the reduction in payments for condemnation counsel expenses.

HYDC's net position was \$36,809 at the end of fiscal year 2014. The increase in the net position between fiscal year 2013 and 2014 was \$13,499 and was a result of the changes in assets and liabilities noted above.

As of June 30, 2013, HYDC had assets consisting of restricted and unrestricted cash and cash equivalents, receivables, prepaid expenses, and other assets, and liabilities consisting of accounts payable and accrued operating and Project expenses.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

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

There was a decrease in total assets from fiscal 2012 to 2013 of \$434,451. HYDC received the first quarter fiscal year 2013 funding on June 29, 2012, resulting in a higher than average cash and cash equivalents balance as of June 30, 2012. The prepaid and other assets is the recognition of fiscal year 2014 expenses which were paid for in fiscal year 2013 and the HYDC office lease security deposit (see Note 6).

The receivable due from the United States National Endowment for the Arts, ("NEA") at the end of fiscal 2012 was received and related expenses paid out in fiscal year 2013. There is a receivable of \$203,595 from the Hudson Yards Infrastructure Corporation ("HYIC") as of June 30, 2013. Of this receivable, \$32,430 is for general operating costs for fiscal 2013 and \$171,165 is for condemnation counsel expenses that were incurred but not yet paid by HYDC at the end of fiscal year 2013 (see Note 5). These expenses were paid by HYDC in fiscal year 2014.

There was a decrease in liabilities from fiscal 2012 to 2013 primarily due to the reduction in payments for condemnation counsel expenses.

HYDC's net position was \$23,310 at the end of fiscal year 2013. The decrease in the net position between fiscal year 2012 and 2013 was \$402,373 and was a result of the changes in assets and liabilities noted above.

The following summarizes HYDC's revenue, expenses and changes in net position (deficit) for the years ended June 30, 2014, 2013, and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Variance</u>	
				<u>2014/13</u>	<u>2013/12</u>
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 2,326,571	\$ 1,979,643	\$ 3,026,642	\$ 346,928	\$ (1,046,999)
National Endowment for the Arts grant	-	-	100,000	-	(100,000)
Interest, investment and miscellaneous income	5,195	20,827	16,404	(15,632)	4,423
Total revenues	<u>2,331,766</u>	<u>2,000,470</u>	<u>3,143,046</u>	<u>331,296</u>	<u>(1,142,576)</u>
Expenses:					
General and administrative	1,622,759	1,869,932	1,978,531	(247,173)	(108,599)
Project expenses	695,508	532,911	616,541	162,597	(83,630)
Security study expenses	-	-	110	-	(110)
Culture shed expenses	-	-	100,000	-	(100,000)
Total expenses	<u>2,318,267</u>	<u>2,402,843</u>	<u>2,695,182</u>	<u>(84,576)</u>	<u>(292,339)</u>
Change in net position	13,499	(402,373)	447,864	415,872	(850,237)
Net position (deficit) - Beginning of year	<u>23,310</u>	<u>425,683</u>	<u>(22,181)</u>	<u>(402,373)</u>	<u>447,864</u>
Net position (deficit) - End of year	<u>\$ 36,809</u>	<u>\$ 23,310</u>	<u>\$ 425,683</u>	<u>\$ 13,499</u>	<u>\$ (402,373)</u>

For fiscal year 2014, there was an increase in HYIC total revenues of \$346,928 as compared to fiscal year 2013. This is primarily due to HYDC having received and recognized \$320,185 as revenue in fiscal year 2012 which represented the funding from HYIC for the first quarter of fiscal year 2013. This resulted in a lower than average balance in revenue for fiscal year 2013.

HYDC's expenses decreased from fiscal year 2013 to 2014 by \$84,576 including a 13% reduction in general and administrative expenses, which included a reduction in salaries and related benefits due to a decrease in staff size.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

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

For the year ended June 30, 2014, HYDC showed an increase in net position of \$13,499 as a result of the changes in revenue and expenses noted above.

For fiscal year 2013, the decrease in HYIC total revenues of \$1,046,999 from fiscal year 2012 is due to reduced funding requested by HYDC to fund administrative and Project expenses for fiscal year 2013.

HYDC's expenses decreased from fiscal year 2012 to 2013 by \$292,339 including a 14% reduction in Project expenses due to the reduction of condemnation counsel services required in fiscal year 2013.

For the year ended June 30, 2013, HYDC showed a decrease in net position of \$402,373 as a result of the changes in revenue and expenses noted above. The decrease in net position is primarily the result of the additional payment of \$320,185 for fiscal year 2013 expenses received from HYIC in fiscal year 2012 and recognized as revenue in fiscal year 2012.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUND FINANCIAL STATEMENTS

The Capital Project Fund ("CPF") accounts for the resources for payment of Project related expenditures, and the General Fund ("GF") is used to account for and report all financial resources not accounted for in the CPF, generally HYDC's administrative expenditures.

The following summarizes the changes in the GF balances for the years ended June 30, 2014, 2013, and 2012:

	2014	2013	2012	Variance	
				2014/13	2013/12
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 1,631,063	\$ 1,446,732	\$ 2,409,991	\$ 184,331	\$ (963,259)
Interest and miscellaneous income	5,195	20,827	16,404	(15,632)	4,423
Total revenue	<u>1,636,258</u>	<u>1,467,559</u>	<u>2,426,395</u>	<u>168,699</u>	<u>(958,836)</u>
Expenditures:					
General and administrative	<u>1,622,759</u>	<u>1,869,932</u>	<u>1,978,531</u>	<u>(247,173)</u>	<u>(108,599)</u>
Total expenditures	<u>1,622,759</u>	<u>1,869,932</u>	<u>1,978,531</u>	<u>(247,173)</u>	<u>(108,599)</u>
Other Financing Sources (Uses):					
Transfer from Capital Projects fund	<u>38,590</u>	<u>-</u>	<u>-</u>	<u>38,590</u>	<u>-</u>
Net Change in Fund Balance	52,089	(402,373)	447,864	454,462	(850,237)
Fund Balance (Deficit), Beginning of Year	(15,280)	387,093	(60,771)	(402,373)	447,864
Fund Balance (Deficit), End of Year	<u>\$ 36,809</u>	<u>\$ (15,280)</u>	<u>\$ 387,093</u>	<u>\$ 52,089</u>	<u>\$ (402,373)</u>

The GF total revenues increased by \$168,699 between fiscal year 2013 and 2014. HYDC received its first quarter fiscal 2013 funding from HYIC on June 29, 2012 in the amount of \$320,185. As a result, HYIC recognized the payment as revenue in fiscal year 2012 and related expenses for fiscal year 2013. This caused GF revenue for HYDC to reflect one less payment in fiscal year 2013 which primarily caused the variance in fiscal year 2014. There was a 13% decrease in GF expenditures between fiscal year 2013 and 2014, primarily due to a reduction in salaries and related benefits as a result of a decrease in staff size. The fund balance at the end of fiscal year 2014 is due to the activity above in addition to a transfer of net assets between funds as of June 30, 2014.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued)

The GF total revenues decreased by \$958,836 between fiscal year 2012 and 2013 primarily due to a decrease in HYIC payments for general and administrative expenditures. There was a 5% decrease in GF expenditures between fiscal year 2012 and 2013, primarily due to a reduction in temporary help, salaries and related benefits due a decrease in staff size. The fund balance at the end of fiscal year 2013 is due to the decrease in revenue received and recognized in year fiscal 2013 over the amount of administrative expenditures incurred as of June 30, 2013.

The following summarizes the changes in the CPF balances for the years ended June 30, 2014, 2013, and 2012:

				Variance	
	2014	2013	2012	2014/13	2013/12
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 695,508	\$ 532,911	\$ 616,651	\$ 162,597	\$ (83,740)
National Endowment for the Arts grant	-	-	100,000	-	(100,000)
Total revenue	<u>695,508</u>	<u>532,911</u>	<u>716,651</u>	<u>162,597</u>	<u>(183,740)</u>
Expenditures:					
Project expenditures	695,508	532,911	616,541	162,597	(83,630)
Security study expenses	-	-	110	-	(110)
Culture Shed expenses	-	-	100,000	-	(100,000)
Total expenditures	<u>695,508</u>	<u>532,911</u>	<u>716,651</u>	<u>162,597</u>	<u>(183,740)</u>
Other Financing Sources (Uses):					
Transfer to General Fund	<u>(38,590)</u>	<u>-</u>	<u>-</u>	<u>(38,590)</u>	<u>-</u>
Net Change in Fund Balance	(38,590)	-	-	(38,590)	-
Fund Balance (Deficit), Beginning of Year	<u>38,590</u>	<u>38,590</u>	<u>38,590</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ 38,590</u>	<u>\$ 38,590</u>	<u>\$ (38,590)</u>	<u>\$ -</u>

There was an increase in total CPF revenue and expenses of \$162,597 from fiscal year 2013 to 2014 due primarily to additional consulting costs incurred to provide design, construction and cost estimating oversight services for the Project. There was a transfer of \$38,590 to the GF in fiscal 2014. The zero fund balance in the CPF at the end of fiscal year 2014 indicates that the capital projects funds received have been expended.

For the fiscal year ending June 30, 2013, the total CPF revenue decreased by \$183,740 from fiscal year 2012. This is primarily due to the reduction in payments from condemnation counsel expenditures. In addition, there was no funding in fiscal 2013 from the NEA. Project expenses have been declining since fiscal year 2010 due to the reduction in condemnation counsel services over the last four years. The positive fund balance at the end of fiscal year 2013 indicates that the capital projects funds had been received for the Project, however, Project expenditures have not been incurred to use the balance.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUND FINANCIAL STATEMENTS (Continued)

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2014, 2013 and 2012:

	2014	2013	2012	Variance	
				2014/13	2013/12
Assets:					
Unrestricted cash and cash equivalents	\$ 85,170	\$ 60,907	\$ 488,392	\$ 24,263	\$ (427,485)
Receivable from Hudson Yards Infrastructure Corporation	1,931	32,430	-	(30,499)	32,430
Other receivables	33,016	857	337	32,159	520
Prepaid expenses and other assets	2,486	19,295	18,391	(16,809)	904
Total Assets	\$ 122,603	\$ 113,489	\$ 507,120	\$ 9,114	\$ (393,631)
Liabilities:					
Accounts payable and accrued operating expenses	\$ 85,794	\$ 128,769	\$ 120,027	\$ (42,975)	\$ 8,742
Total Liabilities	85,794	128,769	120,027	(42,975)	8,742
Fund Balance (Deficit):					
Nonspendable prepaid expenses and other assets	2,486	19,295	18,391	(16,809)	904
Unassigned	34,323	(34,575)	368,702	68,898	(403,277)
Total Fund Balance (Deficit)	\$ 36,809	\$ (15,280)	\$ 387,093	\$ 52,089	\$ (402,373)

There was an increase in total GF assets from fiscal year 2013 to 2014 primarily due to having unspent cash at year-end needed to pay remaining fiscal year 2014 expenses in fiscal year 2015. In addition, the increase in receivables was due to the sale of furniture and reimbursement for relocation costs incurred in fiscal year 2014. GF total liabilities include accounts payable for unpaid vendor invoices and accrued expenses. The increase in fund balance is attributed to the increase in net assets and the decrease in liabilities.

The GF total assets decreased as of June 30, 2013 as compared to fiscal year 2012 due to HYDC having received and recognized the deposit of first quarter fiscal 2013 funding on June 29, 2012. GF total liabilities include accounts payable for unpaid vendor invoices and accrued expenses. The lower unrestricted cash at year-end contributed to the decrease in fund balance.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (UNAUDITED)**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUND FINANCIAL STATEMENTS (Continued)

The following summarizes the CPF assets, liabilities and fund balances as of June 30, 2014, 2013 and 2012:

	2014	2013	2012	Variance	
				2014/13	2013/12
Assets:					
Restricted cash and cash equivalents	\$ -	\$ 38,590	\$ 99,250	\$ (38,590)	\$ (60,660)
Receivable from Hudson Yards Infrastructure Corporation	138,708	171,165	51,325	(32,457)	119,840
Receivable from National Endowment for the Arts	-	-	100,000	-	(100,000)
Total Assets	<u>\$ 138,708</u>	<u>\$ 209,755</u>	<u>\$ 250,575</u>	<u>\$ (71,047)</u>	<u>\$ (40,820)</u>
Liabilities:					
Accrued project expenses	\$ 138,708	\$ 171,165	\$ 211,985	\$ (32,457)	\$ (40,820)
Total Liabilities	<u>138,708</u>	<u>171,165</u>	<u>211,985</u>	<u>(32,457)</u>	<u>(40,820)</u>
Fund Balance:					
Restricted for capital projects	-	38,590	38,590	(38,590)	-
Total Fund Balance	<u>\$ -</u>	<u>\$ 38,590</u>	<u>\$ 38,590</u>	<u>\$ (38,590)</u>	<u>\$ -</u>

CPF assets decreased between fiscal year 2013 and 2014 due primarily to the reduction in condemnation counsel reimbursements and to a transfer of funds to the GF. The liabilities decreased between fiscal year 2013 and 2014 due to the reduction in condemnation counsel expenditures incurred.

The CPF has no restricted funds at the end of fiscal 2014. HYDC only requested and received Project funds for actual condemnation counsel expenses incurred thereby not having unspent restricted cash at June 30, 2014.

CPF assets decreased between fiscal year 2012 and 2013 due to the reduction in condemnation counsel reimbursements and in the NEA receivable. The liabilities decreased between fiscal year 2012 and 2013 due to the reduction in condemnation counsel expenditures incurred.

The CPF has a "restricted to capital projects" fund balance at the end of fiscal 2013. HYDC carried forward, from fiscal 2011, a CPF fund balance at the 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, 2013. 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, 255 Greenwich St., Floor 6, New York, NY 10007.

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HUDSON YARDS DEVELOPMENT CORPORATION
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Unrestricted cash and cash equivalents	\$ 85,170	\$ 60,907
Restricted cash and cash equivalents	-	38,590
Receivable from Hudson Yards Infrastructure Corporation	140,639	203,595
Other receivables	33,016	857
Prepaid expenses	2,486	3,240
Other assets	-	16,055
TOTAL ASSETS	<u>\$ 261,311</u>	<u>\$ 323,244</u>
LIABILITIES		
Accounts payable	\$ 11,195	\$ 47,529
Accrued operating expenses	74,599	81,240
Accrued project expenses	138,708	171,165
TOTAL LIABILITES	<u>224,502</u>	<u>299,934</u>
NET POSITION (DEFICIT)		
Restricted for capital projects	-	38,590
Unrestricted (deficit)	36,809	(15,280)
TOTAL NET POSITION	<u>\$ 36,809</u>	<u>\$ 23,310</u>

HUDSON YARDS DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Hudson Yards Infrastructure Corporation payments	\$ 2,326,571	\$ 1,979,643
Interest, investment and miscellaneous income	<u>5,195</u>	<u>20,827</u>
TOTAL REVENUE	<u>2,331,766</u>	<u>2,000,470</u>
EXPENSES:		
General and administrative	1,622,759	1,869,932
Project expenses	<u>695,508</u>	<u>532,911</u>
TOTAL EXPENSES	<u>2,318,267</u>	<u>2,402,843</u>
CHANGE IN NET POSITION	13,499	(402,373)
NET POSITION (DEFICIT) - Beginning of year	<u>23,310</u>	<u>425,683</u>
NET POSITION - End of year	<u><u>\$ 36,809</u></u>	<u><u>\$ 23,310</u></u>

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Unrestricted cash and cash equivalents	\$ 85,170	\$ -	\$ 85,170
Receivable from Hudson Yards Infrastructure Corporation	1,931	138,708	140,639
Other receivables	33,016	-	33,016
Prepaid expenses	<u>2,486</u>	<u>-</u>	<u>2,486</u>
 TOTAL ASSETS	 <u>\$ 122,603</u>	 <u>\$ 138,708</u>	 <u>\$ 261,311</u>
 LIABILITIES			
Accounts payable	\$ 11,195	\$ -	\$ 11,195
Accrued operating expenses	74,599	-	74,599
Accrued project expenses	<u>-</u>	<u>138,708</u>	<u>138,708</u>
 TOTAL LIABILITIES	 <u>85,794</u>	 <u>138,708</u>	 <u>224,502</u>
 FUND BALANCE (DEFICIT)			
Nonspendable prepaid expenses and other assets	2,486	-	2,486
Unassigned	<u>34,323</u>	<u>-</u>	<u>34,323</u>
 TOTAL FUND BALANCE (DEFICIT)	 <u>36,809</u>	 <u>-</u>	 <u>36,809</u>
 TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	 <u>\$ 122,603</u>	 <u>\$ 138,708</u>	 <u>\$ 261,311</u>

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Unrestricted cash and cash equivalents	\$ 60,907	\$ -	\$ 60,907
Restricted cash and cash equivalents	-	38,590	38,590
Receivable from Hudson Yards Infrastructure Corporation	32,430	171,165	203,595
Other receivables	857	-	857
Prepaid expenses	3,240	-	3,240
Other assets	<u>16,055</u>	<u>-</u>	<u>16,055</u>
TOTAL ASSETS	<u>\$ 113,489</u>	<u>\$ 209,755</u>	<u>\$ 323,244</u>
LIABILITIES			
Accounts payable	\$ 47,529	\$ -	\$ 47,529
Accrued operating expenses	81,240	-	81,240
Accrued project expenses	<u>-</u>	<u>171,165</u>	<u>171,165</u>
TOTAL LIABILITIES	<u>128,769</u>	<u>171,165</u>	<u>299,934</u>
FUND BALANCE (DEFICIT)			
Nonspendable prepaid expenses and other assets	19,295	-	19,295
Unassigned	(34,575)	-	(34,575)
Restricted for capital projects	<u>-</u>	<u>38,590</u>	<u>38,590</u>
TOTAL FUND BALANCE (DEFICIT)	<u>(15,280)</u>	<u>38,590</u>	<u>23,310</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 113,489</u>	<u>\$ 209,755</u>	<u>\$ 323,244</u>

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, 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Hudson Yards Infrastructure Corporation payments	\$ 1,631,063	\$ 695,508	\$ 2,326,571
Interest, investment and miscellaneous income	<u>5,195</u>	<u>-</u>	<u>5,195</u>
TOTAL REVENUES	<u>1,636,258</u>	<u>695,508</u>	<u>2,331,766</u>
EXPENDITURES			
General and administrative	1,622,759	-	1,622,759
Project expenditures	<u>-</u>	<u>695,508</u>	<u>695,508</u>
TOTAL EXPENDITURES	<u>1,622,759</u>	<u>695,508</u>	<u>2,318,267</u>
OTHER FINANCING SOURCES (USES)			
Transfer from Capital Projects Fund to General Fund	<u>38,590</u>	<u>(38,590)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>38,590</u>	<u>(38,590)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	52,089	(38,590)	13,499
FUND BALANCE (DEFICIT) - Beginning of year	<u>(15,280)</u>	<u>38,590</u>	<u>23,310</u>
FUND BALANCE (DEFICIT) - End of year	<u><u>\$ 36,809</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 36,809</u></u>

HUDSON YARDS DEVELOPMENT CORPORATION
GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Hudson Yards Infrastructure Corporation payments	\$ 1,446,732	\$ 532,911	\$ 1,979,643
Interest, investment and miscellaneous income	<u>20,827</u>	<u>-</u>	<u>20,827</u>
TOTAL REVENUES	<u>1,467,559</u>	<u>532,911</u>	<u>2,000,470</u>
EXPENDITURES			
General and administrative	1,869,932	-	1,869,932
Project expenditures	<u>-</u>	<u>532,911</u>	<u>532,911</u>
TOTAL EXPENDITURES	<u>1,869,932</u>	<u>532,911</u>	<u>2,402,843</u>
NET CHANGE IN FUND BALANCE	(402,373)	-	(402,373)
FUND BALANCE (DEFICIT) - Beginning of year	<u>387,093</u>	<u>38,590</u>	<u>425,683</u>
FUND BALANCE (DEFICIT) - End of year	<u>\$ (15,280)</u>	<u>\$ 38,590</u>	<u>\$ 23,310</u>

See accompanying notes to the financial statements.

**HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 Governmental Accounting Standards Board (“GASB”) standards.

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

A. Measurement Focus and Basis of Accounting

The government-wide financial statements of HYDC, which include the statements of net position (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 position (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred, regardless of the timing of cash flows.

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, 2014 and 2013, no reconciliations are provided.

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

B. Fund Balances

Fund balances are classified as either 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB standards.

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.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position (deficit) and the governmental funds balance sheets.

C. Cash Equivalents

HYDC considers all highly liquid instruments with maturities of three months or less when acquired to be cash equivalents.

D. Capital Assets

HYDC does not own any Project assets. Those assets are 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.

E. 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.

F. 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.

G. Recent Accounting Pronouncements

As a component unit of The City, HYDC implements new GASB standards in the same fiscal year as they are implemented by The City. The following are discussions of the standards requiring implementation in the current year and standards which may impact HYDC in future years.

- 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 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental 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 statement periods beginning after December 15, 2012. The adoption of GASB 66 did not have an impact on HYDC's financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (“GASB 67”). GASB 67 establishes financial reporting standards for defined benefit pensions and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013 but was adopted by HYDC in the current year. The adoption of GASB 67 did not have an impact on HYDC’s financial statements as HYDC is not an applicable pension-administered entity.
- 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 requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014 but was adopted by HYDC in the current year. The adoption of GASB 68 did not have an impact on HYDC’s financial statements.
- In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”). GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 is effective for financial statement periods beginning after December 15, 2013 but was adopted by HYDC in the current year. The adoption GASB 69 did not have an impact on HYDC’s financial statements as it has no disposals of operations.
- In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”). GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 is effective for financial statement periods beginning after June 15, 2013. The adoption of GASB 70 did not have an impact on HYDC’s financial statements as it has no nonexchange transactions.
- In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (“GASB 71”). GASB 71 eliminates a potential source of understatement of restated beginning net position and expense in a government’s first year of implementing Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014 but was adopted by HYDC in the current year. The adoption of GASB 71 did not have an impact on HYDC’s financial statements as it has no employees or pension system.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents that potentially subject HYDC to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Through December 31, 2012, non-interest bearing accounts were fully insured. Beginning in 2013, non-interest bearing accounts are insured the same as interest bearing accounts. As of June 30, 2014 and 2013, HYDC’s cash consisted of bank deposits in the amount of \$85,170 and \$99,497, respectively. Such amount includes outstanding checks. 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, 2014 and 2013, JPMorgan Chase Bank, N.A. maintained a zero balance in collateral for HYDC’s three active accounts as the bank balances at year-end did not exceed \$250,000.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 New York City Economic Development Corporation ("EDC") employees and completed a minimum of 2 years of full time employment or 2,750 hours of service.

The Pension Plan 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.

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

For the years ended June 30, 2014 and 2013, HYDC contributed \$80,145 and \$151,737, respectively, to the Pension Plan.

HYDC has no other post-employment benefits.

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, 2014 and 2013, plan assets and liabilities are not reflected in the accompanying financial statements.

NOTE 5 – RETROACTIVE ASSIGNMENT TO HYDC OF RETAINER ASSIGNMENT

In October 2008, the retainer agreement (the "Retainer Agreement") between the City of New York Law Department (the "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, 2014 and 2013, condemnation counsel expenses paid to CLM amounted to \$578,244 and \$498,911, respectively, and such amounts are included in Project expenses in the accompanying financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 – LEASE COMMITMENTS

HYDC had entered into a lease agreement to rent office space at 225 W. 34th Street in New York City. The lease agreement was for a term of ten years and was set to expire 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 required minimum annual rental payments plus escalation charges. HYDC had also entered into a noncancelable operating lease for equipment that expired in March 2014. The contract for the lease of the equipment has not been renewed.

In June 2014, HYDC bought out the existing lease for office space at 225 W. 34th Street in New York City for a total of \$295,000 and relocated existing staff to 255 Greenwich Street in New York City for which HYDC will reimburse the City for the cost of the space on an annual basis. Accordingly, there are no future minimum lease payments required for fiscal years after June 30, 2014. The security deposit held by the building landlord will be returned to HYDC in fiscal year 2015.

For the years ended June 30, 2014 and 2013, rent expense amounted to approximately \$563,000 (including the \$295,000 lease buyout payment) and \$266,000, respectively.

NOTE 7 – CONTINGENCIES

HYDC is involved in several personal injury actions allegedly arising out of accidents and incidents occurring on or about the Project Area. Management believes that any liabilities arising from such claims would be covered either by indemnification protections pursuant to existing agreements between HYDC and the City, or by liability insurance/contractual indemnification of third parties, such as contractors. Accordingly, management believes the potential aggregate liability for all such claims would not have a material adverse effect on HYDC's net position.

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