



HUDSON YARDS DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2013 and 2012

HUDSON YARDS DEVELOPMENT CORPORATION

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

YEARS ENDED JUNE 30, 2013 AND 2012

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements as of and for the Years Ended June 30, 2013 and 2012:	
Government-wide Financial Statements	
Statements of Net Position (Deficit)	10
Statements of Activities.....	11
Governmental Funds Financial Statements	
Governmental Funds Balance Sheets	12-13
Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances	14-15
Notes to Financial Statements	16-21

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, 2013 and 2012 and the statements of activities for the years then ended, and the governmental funds balance sheets as of June 30, 2013 and 2012 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, 2013 and 2012, 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.

Marko Paruthi LLP

New York, NY
September 25, 2013

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (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, 2013 and 2012. 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, 2013 and 2012, 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, 2013 and 2012, and no reconciliations are provided.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (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, 2013, 2012 and 2011.

	2013	2012	2011	Variance	
				2013/12	2012/11
ASSETS:					
Unrestricted cash and cash equivalents	\$ 60,907	\$ 488,392	\$ 20,405	\$ (427,485)	\$ 467,987
Restricted cash and cash equivalents	38,590	99,250	152,946	(60,660)	(53,696)
Receivable from Hudson Yards Infrastructure Corporation	203,595	51,325	103,017	152,270	(51,692)
Receivable from National Endowment for the Arts	-	100,000	-	(100,000)	100,000
Other receivables	857	337	769	520	(432)
Prepaid expenses and other assets	19,295	18,391	2,664	904	15,727
Total Assets	323,244	757,695	279,801	(434,451)	477,894
LIABILITIES:					
Accounts payable	47,529	12,065	11,847	35,464	218
Accrued operating expenses	81,240	107,962	72,762	(26,722)	35,200
Accrued project expenses	171,165	211,985	217,373	(40,820)	(5,388)
Total Liabilities	299,934	332,012	301,982	(32,078)	30,030
NET POSITION (DEFICIT):					
Restricted for capital projects	38,590	38,590	38,590	-	-
Unrestricted	(15,280)	387,093	(60,771)	(402,373)	447,864
Total Net Position	\$ 23,310	\$ 425,683	\$ (22,181)	\$ (402,373)	\$ 447,864

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.

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 7).

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.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

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

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 was an increase in total assets from fiscal year 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 was a receivable of \$100,000 in restricted funds from the NEA, to fund expenses incurred for the Culture Shed project (see Note 6). The other asset is the recognition of the HYDC office lease security deposit (see Note 7).

The receivable from HYIC for \$51,325 was for condemnation counsel expenses that were incurred but not yet paid by HYDC at the end of fiscal 2012 (see Note 5). These expenses were paid by HYDC in fiscal year 2013.

There was 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's net position was \$425,683 as of June 30, 2012. The change in the net position between fiscal year 2011 and fiscal year 2012 was \$447,864 and is 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, 2013, 2012, and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Variance</u>	
				<u>2013/12</u>	<u>2012/11</u>
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 1,979,643	\$ 3,026,642	\$ 3,197,711	\$ (1,046,999)	\$ (171,069)
Income for security study	-	-	414,412	-	(414,412)
National Endowment for the Arts grant	-	100,000	-	(100,000)	100,000
Interest, investment and miscellaneous income	20,827	16,404	395	4,423	16,009
Total revenues	<u>2,000,470</u>	<u>3,143,046</u>	<u>3,612,518</u>	<u>(1,142,576)</u>	<u>(469,472)</u>
Expenses:					
General and administrative	1,869,932	1,978,531	2,009,819	(108,599)	(31,288)
Project expenses	532,911	616,541	1,205,288	(83,630)	(588,747)
Security study expenses	-	110	421,875	(110)	(421,765)
Culture shed expenses	-	100,000	-	(100,000)	100,000
Total expenses	<u>2,402,843</u>	<u>2,695,182</u>	<u>3,636,982</u>	<u>(292,339)</u>	<u>(941,800)</u>
Change in net position	(402,373)	447,864	(24,464)	(850,237)	472,328
Net position (deficit) - Beginning of year	425,683	(22,181)	2,283	447,864	(24,464)
Net position (deficit) - End of year	<u>\$ 23,310</u>	<u>\$ 425,683</u>	<u>\$ (22,181)</u>	<u>\$ (402,373)</u>	<u>\$ 447,864</u>

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 in 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 in condemnation counsel services required in fiscal year 2013.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (UNAUDITED)**

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

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.

For fiscal year 2012, the decrease in HYIC total revenues by \$171,069 from fiscal year 2011 was primarily due to the Security Study completed in fiscal year 2011. The decrease was also due to reduced funding requested by HYDC to fund administrative and Project expenses in fiscal year 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 was recognized as revenue. In addition, HYDC recognized \$100,000 in revenue from the NEA. This revenue funded expenses incurred for the Culture Shed (see Note 6).

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

For the year ended June 30, 2012, HYDC showed an increase in net position of \$447,864 as a result of the changes in revenues and expenses noted above. The increase in net position for fiscal year 2012 was primarily the result of the additional payment of \$320,185 from HYIC recognized as revenue in the current year for which the operating expenses were incurred in fiscal year 2013.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUND FINANCIAL STATEMENTS

The CPF accounts for the resources for payment of Project related expenditures, and the 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, 2013, 2012, and 2011:

	2013	2012	2011	Variance	
				2013/12	2012/11
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 1,446,732	\$ 2,409,991	\$ 1,927,822	\$ (963,259)	\$ 482,169
Interest and miscellaneous income	20,827	16,404	395	4,423	16,009
Total revenue	<u>1,467,559</u>	<u>2,426,395</u>	<u>1,928,217</u>	<u>(958,836)</u>	<u>498,178</u>
Expenditures:					
General and administrative	<u>1,869,932</u>	<u>1,978,531</u>	<u>2,009,819</u>	<u>(108,599)</u>	<u>(31,288)</u>
Total expenditures	<u>1,869,932</u>	<u>1,978,531</u>	<u>2,009,819</u>	<u>(108,599)</u>	<u>(31,288)</u>
Net Change in Fund Balance	(402,373)	447,864	(81,602)	(850,237)	529,466
Fund Balance (Deficit), Beginning of Year	<u>387,093</u>	<u>(60,771)</u>	<u>20,831</u>	<u>447,864</u>	<u>(81,602)</u>
Fund Balance (Deficit), End of Year	<u>\$ (15,280)</u>	<u>\$ 387,093</u>	<u>\$ (60,771)</u>	<u>\$ (402,373)</u>	<u>\$ 447,864</u>

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (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 GF total revenues increased by \$498,178 between fiscal year 2011 and 2012 due to an increase in HYIC payments as there were six payments received from HYIC for general and administrative expenditures as compared to four payments in the prior year. There was a 2% decrease in GF expenditures between fiscal year 2011 and 2012, due to one-time fiscal 2011 expenditures 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 administrative expenditures incurred as of June 30, 2012.

The fund balance of \$387,093 as of June 30, 2012 is a result of the changes in revenues and expenditures 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 expenditures were incurred in fiscal year 2013.

The following summarizes the changes in the CPF balances for the years ended June 30, 2013, 2012, and 2011:

	2013	2012	2011	Variance	
				2013/12	2012/11
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 532,911	\$ 616,651	\$ 1,269,889	\$ (83,740)	\$ (653,238)
Income for security study	-	-	414,412	-	(414,412)
National Endowment for the Arts grant	-	100,000	-	(100,000)	100,000
Total revenue	<u>532,911</u>	<u>716,651</u>	<u>1,684,301</u>	<u>(183,740)</u>	<u>(967,650)</u>
Expenditures:					
Project expenditures	532,911	616,541	1,205,288	(83,630)	(588,747)
Security study expenses	-	110	421,875	(110)	(421,765)
Culture Shed expenses	-	100,000	-	(100,000)	100,000
Total expenditures	<u>532,911</u>	<u>716,651</u>	<u>1,627,163</u>	<u>(183,740)</u>	<u>(910,512)</u>
Net Change in Fund Balance	-	-	57,138	-	(57,138)
Fund Balance (Deficit), Beginning of Year	38,590	38,590	(18,548)	-	57,138
Fund Balance, End of Year	<u>\$ 38,590</u>	<u>\$ 38,590</u>	<u>\$ 38,590</u>	<u>\$ -</u>	<u>\$ -</u>

For the fiscal year ended June 30, 2013, the total CPF revenue decreased by \$183,740 from fiscal year 2012. This is primarily due to the reduction in payments for 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, 2013 AND 2012 (UNAUDITED)**

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

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

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2013, 2012 and 2011:

	2013	2012	2011	Variance	
				2013/12	2012/11
Assets:					
Unrestricted cash and cash equivalents	\$ 60,907	\$ 488,392	\$ 20,405	\$ (427,485)	\$ 467,987
Receivable from Hudson Yards Infrastructure Corporation	32,430	-	-	32,430	-
Other receivables	857	337	769	520	(432)
Prepaid expenses and other assets	19,295	18,391	2,664	904	15,727
Total Assets	\$ 113,489	\$ 507,120	\$ 23,838	\$ (393,631)	\$ 483,282
Liabilities:					
Accounts payable and accrued operating expenses	\$ 128,769	\$ 120,027	\$ 84,609	\$ 8,742	\$ 35,418
Total Liabilities	128,769	120,027	84,609	8,742	35,418
Fund Balance (Deficit):					
Nonspendable prepaid expenses and other assets	19,295	18,391	2,664	904	15,727
Unassigned	(34,575)	368,702	(63,435)	(403,277)	432,137
Total Fund Balance (Deficit)	\$ (15,280)	\$ 387,093	\$ (60,771)	\$ (402,373)	\$ 447,864

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 payable and accrued expenses and unpaid vendor invoices. The lower unrestricted cash at year-end contributed to the decrease in fund balance.

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's office lease security deposit. GF total liabilities include payable and accrued expenses and unpaid vendor invoices. The higher unrestricted cash at year-end contributed to the positive total fund balance.

**HUDSON YARDS DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (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, 2013, 2012 and 2011:

	2013	2012	2011	Variance	
				2013/12	2012/11
Assets:					
Restricted cash and cash equivalents	\$ 38,590	\$ 99,250	\$ 152,946	\$ (60,660)	\$ (53,696)
Receivable from Hudson Yards Infrastructure Corporation	171,165	51,325	103,017	119,840	(51,692)
Receivable from National Endowment for the Arts	-	100,000	-	(100,000)	100,000
Total Assets	\$ 209,755	\$ 250,575	\$ 255,963	\$ (40,820)	\$ (5,388)
Liabilities:					
Accrued project expenses	\$ 171,165	\$ 211,985	\$ 217,373	\$ (40,820)	\$ (5,388)
Total Liabilities	171,165	211,985	217,373	(40,820)	(5,388)
Fund Balance:					
Restricted for capital projects	38,590	38,590	38,590	-	-
Total Fund Balance	\$ 38,590	\$ 38,590	\$ 38,590	\$ -	\$ -

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.

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 included condemnation counsel expenditures incurred and a \$100,000 accrued project expenses for the Culture Shed.

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 POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Unrestricted cash and cash equivalents	\$ 60,907	\$ 488,392
Restricted cash and cash equivalents	38,590	99,250
Receivable from Hudson Yards Infrastructure Corporation	203,595	51,325
Receivable from National Endowment for the Arts	-	100,000
Other receivables	857	337
Prepaid expenses	3,240	2,336
Other assets	16,055	16,055
TOTAL ASSETS	\$ 323,244	\$ 757,695
LIABILITIES		
Accounts payable	\$ 47,529	\$ 12,065
Accrued operating expenses	81,240	107,962
Accrued project expenses	171,165	211,985
TOTAL LIABILITES	299,934	332,012
NET POSITION (DEFICIT)		
Restricted for capital projects	38,590	38,590
Unrestricted (deficit)	(15,280)	387,093
TOTAL NET POSITION	\$ 23,310	\$ 425,683

HUDSON YARDS DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Hudson Yards Infrastructure Corporation payments	\$ 1,979,643	\$ 3,026,642
National Endowment for Arts grant	-	100,000
Interest, investment and miscellaneous income	<u>20,827</u>	<u>16,404</u>
TOTAL REVENUE	<u>2,000,470</u>	<u>3,143,046</u>
EXPENSES:		
General and administrative	1,869,932	1,978,531
Project expenses	532,911	616,541
Security study expenses	-	110
Culture Shed expenses	<u>-</u>	<u>100,000</u>
TOTAL EXPENSES	<u>2,402,843</u>	<u>2,695,182</u>
CHANGE IN NET POSITION	(402,373)	447,864
NET POSITION (DEFICIT) - Beginning of year	<u>425,683</u>	<u>(22,181)</u>
NET POSITION - End of year	<u>\$ 23,310</u>	<u>\$ 425,683</u>

See accompanying notes to the financial statements.

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	16,055	-	16,055
 TOTAL ASSETS	 \$ 113,489	 \$ 209,755	 \$ 323,244
 LIABILITIES			
Accounts payable	\$ 47,529	\$ -	\$ 47,529
Accrued operating expenses	81,240	-	81,240
Accrued project expenses	-	171,165	171,165
 TOTAL LIABILITIES	 128,769	 171,165	 299,934
 FUND BALANCE (DEFICIT)			
Nonspendable prepaid expenses and other assets	19,295	-	19,295
Unassigned	(34,575)	-	(34,575)
Restricted for capital projects	-	38,590	38,590
 TOTAL FUND BALANCE (DEFICIT)	 (15,280)	 38,590	 23,310
 TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	 \$ 113,489	 \$ 209,755	 \$ 323,244

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
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	<u>16,055</u>	<u>-</u>	<u>16,055</u>
 TOTAL ASSETS	 <u>\$ 507,120</u>	 <u>\$ 250,575</u>	 <u>\$ 757,695</u>
LIABILITIES			
Accounts payable	\$ 12,065	\$ -	\$ 12,065
Accrued operating expenses	107,962	-	107,962
Accrued project expenses	<u>-</u>	<u>211,985</u>	<u>211,985</u>
 TOTAL LIABILITIES	 <u>120,027</u>	 <u>211,985</u>	 <u>332,012</u>
FUND BALANCE			
Nonspendable prepaid expenses and other assets	18,391	-	18,391
Unassigned	368,702	-	368,702
Restricted for capital projects	<u>-</u>	<u>38,590</u>	<u>38,590</u>
 TOTAL FUND BALANCE	 <u>387,093</u>	 <u>38,590</u>	 <u>425,683</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 507,120</u>	 <u>\$ 250,575</u>	 <u>\$ 757,695</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, 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	-	532,911	532,911
Security study expenditures	-	-	-
Culture Shed expenditures	<u>-</u>	<u>-</u>	<u>-</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 - 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>

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

	<u>General</u> <u>Fund</u>	<u>Capital</u> <u>Projects Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
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	<u>16,404</u>	<u>-</u>	<u>16,404</u>
TOTAL REVENUES	<u>2,426,395</u>	<u>716,651</u>	<u>3,143,046</u>
EXPENDITURES			
General and administrative	1,978,531	-	1,978,531
Project expenditures	-	616,541	616,541
Security study expenditures	-	110	110
Culture Shed expenditures	<u>-</u>	<u>100,000</u>	<u>100,000</u>
TOTAL EXPENDITURES	<u>1,978,531</u>	<u>716,651</u>	<u>2,695,182</u>
NET CHANGE IN FUND BALANCE	447,864	-	447,864
FUND BALANCE (DEFICIT) - Beginning of year	<u>(60,771)</u>	<u>38,590</u>	<u>(22,181)</u>
FUND BALANCE - End of year	<u>\$ 387,093</u>	<u>\$ 38,590</u>	<u>\$ 425,683</u>

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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, 2013 and 2012, 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, 2013 AND 2012

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 original maturities of three months or less to be cash equivalents.

D. *Capital Assets*

HYDC does 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.

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 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, which are a type of public-private or public-public partnership. 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 did not have an impact on HYIC's financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement 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. GASB 61 does not have an impact on HYDC or its status as a blended component unit of The City.
- 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 FASB 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. GASB 62 did not have an impact on HYDC’s financial statements.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”). GASB 63 established new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renamed the statement of net assets to statement of net position, as well as reported net assets, and components thereof, to net position. GASB 63 is effective for financial statement periods beginning after December 15, 2011. HYDC has implemented GASB 63 in fiscal year 2013 and as a result it has renamed its government-wide financial statements to the statement of net position (deficit) and components thereof, with no financial impact.
- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”). GASB 65 established accounting and reporting standards that reclassify certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items currently being reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term “deferred” in the financial statement presentation. HYDC implemented GASB 65 in fiscal year 2013 but the adoption of GASB 65 had no impact on its financial statements.
- 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. 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. 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. GASB 67 will not have an impact on its financial statements as HYDC is not an applicable pension administered entity.

**HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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. GASB 68 is not anticipated to have an impact on HYDC’s financial statements.

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, 2013 and 2012, HYDC’s cash consisted of bank deposits in the amount of \$99,497 and \$587,642, 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, 2013 and 2012, JPMorgan Chase Bank, N.A. maintained a total of \$0 and \$360,673, 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 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.

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

For the years ended June 30, 2013 and 2012, HYDC contributed \$151,737 and \$152,339, respectively, to the Pension Plan.

HYDC has no other post-employment benefits.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 – DEFINED CONTRIBUTION PLAN (Continued)

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, 2013 and 2012, 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, 2013 and 2012, condemnation counsel expenses paid to CLM amounted to \$498,911 and \$559,545, respectively, and such amounts are included in Project expenses in the accompanying financial statements.

NOTE 6 – 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 as of June 30, 2012. It was subsequently collected during fiscal 2013.

NOTE 7 – 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 has also entered into a noncancelable operating lease for equipment that expires in March 2014.

HYDC is obligated, pursuant to the lease agreements, to make the approximate future minimum annual lease payments for fiscal years ending after June 30, 2013 as indicated below:

2014	\$	265,000
2015		266,000
2016		<u>274,000</u>
	\$	<u>805,000</u>

For the years ended June 30, 2013 and 2012, rent expense amounted to approximately \$266,000 and \$255,000, respectively.

HUDSON YARDS DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 8 – 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 financial condition.

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