



HUDSON YARDS DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**HUDSON YARDS DEVELOPMENT CORPORATION
(A Component Unit of The City of New York)**

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

YEARS ENDED JUNE 30, 2017 AND 2016

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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 (deficit) as of June 30, 2017 and 2016 and the statements of activities for the years then ended, and the governmental funds balance sheets as of June 30, 2017 and 2016 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, 2017 and 2016, 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 black ink that reads "Marks Paneth LLP". The signature is written in a cursive, flowing style.

New York, NY
September 27, 2017

HUDSON YARDS DEVELOPMENT CORPORATION
(A Component Unit of The City of New York)

Management's Discussion and Analysis
As of and for the Years Ended June 30, 2017 and 2016
(unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2017 and 2016. It should be read in conjunction with HYDC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of four 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 and the statements of activities, are presented to provide information about HYDC as a whole, in accordance with Governmental Accounting Standards Board ("GASB") standards. This is to provide the reader with a broad overview of HYDC's finances. The government-wide financial statements 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 related 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, 2017 and 2016, 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, 2017 and 2016, and no reconciliations are provided.

ORGANIZATIONAL OVERVIEW

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 Seventh Avenue and West 41st Street to a new terminal at Eleventh 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.

HUDSON YARDS DEVELOPMENT CORPORATION
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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summarizes HYDC's assets, liabilities and net position as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017 vs. 2016</u>	<u>Change 2016 vs. 2015</u>
Assets:					
Unrestricted cash and cash equivalents	\$ 89,002	\$ 179,369	\$ 188,101	\$ (90,367)	\$ (8,732)
Restricted cash and cash equivalents	5,500	124,766	-	(119,266)	124,766
Receivable from Hudson Yards Infrastructure Corporation	44,318	45,258	124,081	(940)	(78,823)
Other receivables	-	491	-	(491)	491
Prepaid expenses and other assets	<u>394</u>	<u>583</u>	<u>710</u>	<u>(189)</u>	<u>(127)</u>
Total Assets	<u>139,214</u>	<u>350,467</u>	<u>312,892</u>	<u>(211,253)</u>	<u>37,575</u>
Liabilities:					
Accounts payable - operating	67,418	11,090	35,010	56,328	(23,920)
Accounts payable - project	44,318	124,766	-	(80,448)	124,766
Other current liabilities - project	5,500	-	-	5,500	-
Accrued operating expenses	33,819	27,727	32,029	6,092	(4,302)
Accrued project expenses	<u>-</u>	<u>45,258</u>	<u>118,266</u>	<u>(45,258)</u>	<u>(73,008)</u>
Total Liabilities	<u>151,055</u>	<u>208,841</u>	<u>185,305</u>	<u>(57,786)</u>	<u>23,536</u>
Net position (deficit):					
Unrestricted	<u>(11,841)</u>	<u>141,626</u>	<u>127,587</u>	<u>(153,467)</u>	<u>14,039</u>
Total Net Position (Deficit)	<u>\$ (11,841)</u>	<u>\$ 141,626</u>	<u>\$ 127,587</u>	<u>\$ (153,467)</u>	<u>\$ 14,039</u>

The decrease in total assets in fiscal year 2017 of \$211,253 and increase in fiscal year 2016 of \$37,575 was due to the difference between collections of revenue and payment of operating expenses during each fiscal year. The changes in restricted cash and cash equivalents for fiscal years 2017 and 2016 was a result of timing in the payment of Project liabilities at year-end. The receivable from the Hudson Yards Infrastructure Corporation ("HYIC") in fiscal years 2017 and 2016 was for condemnation counsel expenses that were incurred but not yet paid by the end of the fiscal year.

The decrease in total liabilities in fiscal year 2017 of \$57,786 and increase in fiscal year 2016 of \$23,536 was due to changes in liabilities and expenses during each fiscal year. The balance in other current liabilities for fiscal year 2017 reflects a liability related to the appraisals necessary for the sale of Eastern Rail Yards Transferable Development Rights ("ERYTDRs") to owners of certain properties within the Large Scale Plan Subdistrict ("Subdistrict A") of the Special Hudson Yards District. This balance for fiscal year 2017 will be paid in the subsequent fiscal year.

The net position decreased in fiscal year 2017 of \$153,467 and increase in fiscal year 2016 of \$14,039 was a result of changes to the assets and liabilities noted above.

HUDSON YARDS DEVELOPMENT CORPORATION
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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

The following summarizes the activities of HYDC for the years ended June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017 vs. 2016</u>	<u>Change 2016 vs. 2015</u>
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 673,736	\$ 1,097,007	\$ 1,342,838	\$ (423,271)	\$ (245,831)
Eastern Rail Yards	44,500	9,000	124,000	35,500	(115,000)
Interest and miscellaneous revenue	<u>177</u>	<u>148</u>	<u>187</u>	<u>29</u>	<u>(39)</u>
Total revenues	<u>718,413</u>	<u>1,106,155</u>	<u>1,467,025</u>	<u>(387,742)</u>	<u>(360,870)</u>
Expenses:					
General and administrative	611,283	540,518	626,918	70,765	(86,400)
Project	<u>260,597</u>	<u>551,598</u>	<u>749,329</u>	<u>(291,001)</u>	<u>(197,731)</u>
Total expenses	<u>871,880</u>	<u>1,092,116</u>	<u>1,376,247</u>	<u>(220,236)</u>	<u>(284,131)</u>
Change in net position	(153,467)	14,039	90,778	(167,506)	(76,739)
Net position - beginning of year	<u>141,626</u>	<u>127,587</u>	<u>36,809</u>	<u>14,039</u>	<u>90,778</u>
Net position (deficit) - end of year	<u>\$ (11,841)</u>	<u>\$ 141,626</u>	<u>\$ 127,587</u>	<u>\$ (153,467)</u>	<u>\$ 14,039</u>

Revenue from HYIC decreased in fiscal years 2017 by \$423,271 and in fiscal year 2016 by \$245,831 as a result of a decrease in Project and administrative expenses.

During fiscal years 2017 and 2016, HYDC received revenues and incurred expenses of \$44,500 and \$9,000, respectively, related to the appraisals necessary for the sale of ERYTDRs to owners of certain properties within Subdistrict A of the Special Hudson Yards District.

Expenses decreased in fiscal year 2017 by \$220,236 due to a reduction in Project expenses of 53% offset by a 13% increase in administrative expenses related to staffing changes and consultant fees.

Expenses decreased in fiscal year 2016 by \$284,131 due to a reduction in Project expenses of 26% and a 14% decrease in administrative expenses related to staffing changes and consultant fees.

Net position decreased by \$153,467 in fiscal year 2017 and increased by \$14,039 in fiscal year 2016 as a result of the revenue and expenses noted above.

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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

HYDC reports governmental activity using two funds: a general fund (“GF”) and a capital projects fund (“CPF”). The GF accounts for and reports all financial resources not accounted for in the CPF, generally HYDC’s administrative expenditures. The CPF accounts for the resources for payment of Project related expenditures.

The following summarizes the changes in the GF balances for the years ended June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017 vs. 2016</u>	<u>Change 2016 vs. 2015</u>
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 457,639	\$ 554,409	\$ 717,509	\$ (96,770)	\$ (163,100)
Interest and miscellaneous revenue	<u>177</u>	<u>148</u>	<u>187</u>	<u>29</u>	<u>(39)</u>
Total revenues	<u>457,816</u>	<u>554,557</u>	<u>717,696</u>	<u>(96,741)</u>	<u>(163,139)</u>
Expenditures:					
General and administrative	<u>611,283</u>	<u>540,518</u>	<u>626,918</u>	<u>70,765</u>	<u>(86,400)</u>
Total expenditures	<u>611,283</u>	<u>540,518</u>	<u>626,918</u>	<u>70,765</u>	<u>(86,400)</u>
Net change in fund balance	(153,467)	14,039	90,778	(167,506)	(76,739)
Fund balance (deficit) - beginning of year	<u>141,626</u>	<u>127,587</u>	<u>36,809</u>	<u>14,039</u>	<u>90,778</u>
Fund balance (deficit) - end of year	<u>\$ (11,841)</u>	<u>\$ 141,626</u>	<u>\$ 127,587</u>	<u>\$ (153,467)</u>	<u>\$ 14,039</u>

The total GF revenue decreased in fiscal year 2017 by \$96,741 due to HYDC having received first quarter fiscal year 2017 funding in June 2016. Total GF revenue decreased in fiscal year 2016 by \$163,139 as a result of having cash and cash equivalents on hand at the beginning of the year available to pay fiscal year 2016 expenditures.

The total GF expenditures increased in fiscal year 2017 by \$70,765 and decreased in fiscal year 2016 by \$86,400 which was primarily due to a 13% increase and 12% decrease in personnel and consultant expenditures in fiscal years 2017 and 2016, respectively.

The changes in GF fund balances were a result of changes in revenue and expenditures as noted above.

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

The following summarizes the changes in the CPF balances for the years ended June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017 vs. 2016</u>	<u>Change 2016 vs. 2015</u>
Revenues:					
Hudson Yards Infrastructure Corporation payments	\$ 216,097	\$ 542,598	\$ 625,329	\$ (326,501)	\$ (82,731)
Eastern Rail Yards	44,500	9,000	124,000	35,500	(115,000)
Total revenues	<u>260,597</u>	<u>551,598</u>	<u>749,329</u>	<u>(291,001)</u>	<u>(197,731)</u>
Expenditures:					
Project	<u>260,597</u>	<u>551,598</u>	<u>749,329</u>	<u>(291,001)</u>	<u>(197,731)</u>
Total expenditures	<u>260,597</u>	<u>551,598</u>	<u>749,329</u>	<u>(291,001)</u>	<u>(197,731)</u>
Net change in fund balance	-	-	-	-	-
Fund balance - beginning of year	-	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The total CPF revenues and expenditures both decreased in fiscal years 2017 and 2016 by \$291,001 and \$197,731, respectively. This was a result of a decrease of Project related condemnation counsel revenues and expenditures offset by an increase in revenues and expenditures related to the appraisals necessary for the sale of ERYTDRs to owners of certain properties within Subdistrict A of the Special Hudson Yards District.

The zero fund balance in the CPF at the end of fiscal years 2017, 2016 and 2015 indicates that the capital projects funds received have been expended.

HUDSON YARDS DEVELOPMENT CORPORATION
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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017 vs. 2016</u>	<u>Change 2016 vs. 2015</u>
Assets:					
Unrestricted cash and cash equivalents	\$ 89,002	\$ 179,369	\$ 188,101	\$ (90,367)	\$ (8,732)
Receivable from Hudson Yards Infrastructure Corporation	-	-	5,815	-	(5,815)
Other receivables	-	491	-	(491)	491
Prepaid expenses and other assets	394	583	710	(189)	(127)
Total assets	<u>\$ 89,396</u>	<u>\$ 180,443</u>	<u>\$ 194,626</u>	<u>\$ (91,047)</u>	<u>\$ (14,183)</u>
Liabilities:					
Accounts payable and accrued operating expenses	\$ 101,237	\$ 38,817	\$ 67,039	\$ 62,420	\$ (28,222)
Total liabilities	<u>101,237</u>	<u>38,817</u>	<u>67,039</u>	<u>62,420</u>	<u>(28,222)</u>
Fund balance:					
Nonspendable prepaid expenses and other assets	394	583	710	(189)	(127)
Unassigned	(12,235)	141,043	126,877	(153,278)	14,166
Total fund balance	<u>(11,841)</u>	<u>141,626</u>	<u>127,587</u>	<u>(153,467)</u>	<u>14,039</u>
Total liabilities and fund balance	<u>\$ 89,396</u>	<u>\$ 180,443</u>	<u>\$ 194,626</u>	<u>\$ (91,047)</u>	<u>\$ (14,183)</u>

The total GF assets decreased in fiscal years 2017 and 2016 by \$91,047 and \$14,183, respectively, due to the difference between collections of revenue and payments of operating expenditures during the fiscal year.

The total GF liabilities increased by \$62,420 in fiscal year 2017 and decreased by \$28,222 in fiscal year 2016 due to changes in operating liabilities and expenditures during the fiscal year.

The net position decreased by \$153,467 in fiscal year 2017 and increased by \$14,039 in fiscal year 2016 as a result of changes to the assets and liabilities noted above.

HUDSON YARDS DEVELOPMENT CORPORATION
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FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the CPF assets, liabilities and fund balances as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Change 2017 vs. 2016</u>	<u>Change 2016 vs. 2015</u>
Assets:					
Restricted cash and cash equivalents	\$ 5,500	\$ 124,766	\$ -	\$ (119,266)	\$ 124,766
Receivable from Hudson Yards Infrastructure Corporation	<u>44,318</u>	<u>45,258</u>	<u>118,266</u>	<u>(940)</u>	<u>(73,008)</u>
Total assets	<u>\$ 49,818</u>	<u>\$ 170,024</u>	<u>\$ 118,266</u>	<u>\$ (120,206)</u>	<u>\$ 51,758</u>
Liabilities:					
Accounts payable and accrued project expenses	\$ 44,318	\$ 170,024	\$ 118,266	\$ (125,706)	\$ 51,758
Other current liabilities	<u>5,500</u>	<u>-</u>	<u>-</u>	<u>5,500</u>	<u>-</u>
Total liabilities	<u>49,818</u>	<u>170,024</u>	<u>118,266</u>	<u>(120,206)</u>	<u>51,758</u>
Fund Balance:					
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 49,818</u>	<u>\$ 170,024</u>	<u>\$ 118,266</u>	<u>\$ (120,206)</u>	<u>\$ 51,758</u>

The total CPF assets and liabilities decreased in fiscal year 2017 by \$120,206 and increased in fiscal year 2016 by \$51,758. The decrease in Project expenditures for both fiscal years resulted in the decrease of related Project liabilities.

The CPF had no restricted funds at the end of fiscal years 2017 and 2016. HYDC only requested and received Project funds for actual Project related expenditures incurred, thereby having no fund balances at June 30, 2017 and 2016.

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, 110 William Street, Room 400, New York, NY 10038.

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HUDSON YARDS DEVELOPMENT CORPORATION

(A Component Unit of The City of New York)

Statements of Net Position (Deficit)**As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Assets		
Unrestricted cash and cash equivalents	\$ 89,002	\$ 179,369
Restricted cash and cash equivalents	5,500	124,766
Receivable from Hudson Yards Infrastructure Corporation	44,318	45,258
Other receivables	-	491
Prepaid expenses	<u>394</u>	<u>583</u>
Total assets	<u>\$ 139,214</u>	<u>\$ 350,467</u>
Liabilities		
Accounts payable - operating	\$ 67,418	\$ 11,090
Accounts payable - project	44,318	124,766
Other current liabilities - project	5,500	-
Accrued operating expenses	33,819	27,727
Accrued project expenses	<u>-</u>	<u>45,258</u>
Total liabilities	<u>151,055</u>	<u>208,841</u>
Net position (deficit)		
Unrestricted	<u>(11,841)</u>	<u>141,626</u>
Total net position (deficit)	<u>\$ (11,841)</u>	<u>\$ 141,626</u>

HUDSON YARDS DEVELOPMENT CORPORATION
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Statements of Activities
For the Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Hudson Yards Infrastructure Corporation payments	\$ 673,736	\$ 1,097,007
Eastern Rail Yards	44,500	9,000
Interest and miscellaneous revenue	177	148
Total revenues	718,413	1,106,155
Expenses		
General and administrative	611,283	540,518
Project	260,597	551,598
Total expenses	871,880	1,092,116
Change in net position	(153,467)	14,039
Net position - Beginning of year	141,626	127,587
Net position (deficit) - End of year	\$ (11,841)	\$ 141,626

HUDSON YARDS DEVELOPMENT CORPORATION

(A Component Unit of The City of New York)

Governmental Funds Balance Sheet

As of June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Unrestricted cash and cash equivalents	\$ 89,002	\$ -	\$ 89,002
Restricted cash and cash equivalents	-	5,500	5,500
Receivable from Hudson Yards Infrastructure Corporation	-	44,318	44,318
Prepaid expenses	<u>394</u>	<u>-</u>	<u>394</u>
Total assets	<u>\$ 89,396</u>	<u>\$ 49,818</u>	<u>\$ 139,214</u>
Liabilities			
Accounts payable	\$ 67,418	\$ 44,318	\$ 111,736
Other current liabilities	-	5,500	5,500
Accrued operating expenses	<u>33,819</u>	<u>-</u>	<u>33,819</u>
Total liabilities	<u>101,237</u>	<u>49,818</u>	<u>151,055</u>
Fund balance (deficit)			
Nonspendable prepaid expenses	394	-	394
Unassigned	<u>(12,235)</u>	<u>-</u>	<u>(12,235)</u>
Total fund balance (deficit)	<u>(11,841)</u>	<u>-</u>	<u>(11,841)</u>
Total liabilities and fund balance (deficit)	<u>\$ 89,396</u>	<u>\$ 49,818</u>	<u>\$ 139,214</u>

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

(A Component Unit of The City of New York)

Governmental Funds Balance Sheet

As of June 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Unrestricted cash and cash equivalents	\$ 179,369	\$ -	\$ 179,369
Restricted cash and cash equivalents	-	124,766	124,766
Receivable from Hudson Yards Infrastructure Corporation	-	45,258	45,258
Other receivables	491	-	491
Prepaid expenses	<u>583</u>	<u>-</u>	<u>583</u>
Total assets	<u>\$ 180,443</u>	<u>\$ 170,024</u>	<u>\$ 350,467</u>
Liabilities			
Accounts payable - operating	\$ 11,090	\$ -	\$ 11,090
Accounts payable - project	-	124,766	124,766
Accrued operating expenses	27,727	-	27,727
Accrued project expenses	<u>-</u>	<u>45,258</u>	<u>45,258</u>
Total liabilities	<u>38,817</u>	<u>170,024</u>	<u>208,841</u>
Fund balance			
Nonspendable prepaid expenses	583	-	583
Unassigned	<u>141,043</u>	<u>-</u>	<u>141,043</u>
Total fund balance	<u>141,626</u>	<u>-</u>	<u>141,626</u>
Total liabilities and fund balance	<u>\$ 180,443</u>	<u>\$ 170,024</u>	<u>\$ 350,467</u>

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION

(A Component Unit of The City of New York)

**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Hudson Yards Infrastructure Corporation payments	\$ 457,639	\$ 216,097	\$ 673,736
Eastern Rail Yards	-	44,500	44,500
Interest and miscellaneous revenue	<u>177</u>	<u>-</u>	<u>177</u>
Total revenues	<u>457,816</u>	<u>260,597</u>	<u>718,413</u>
Expenditures			
General and administrative	611,283	-	611,283
Project	<u>-</u>	<u>260,597</u>	<u>260,597</u>
Total expenditures	<u>611,283</u>	<u>260,597</u>	<u>871,880</u>
Net change in fund balance	(153,467)	-	(153,467)
Fund balance - Beginning of year	<u>141,626</u>	<u>-</u>	<u>141,626</u>
Fund balance - End of year	<u>\$ (11,841)</u>	<u>\$ -</u>	<u>\$ (11,841)</u>

HUDSON YARDS DEVELOPMENT CORPORATION

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Hudson Yards Infrastructure Corporation payments	\$ 554,409	\$ 542,598	\$ 1,097,007
Eastern Rail Yards	-	9,000	9,000
Interest and miscellaneous revenue	<u>148</u>	<u>-</u>	<u>148</u>
Total revenues	<u>554,557</u>	<u>551,598</u>	<u>1,106,155</u>
Expenditures			
General and administrative	540,518	-	540,518
Project	<u>-</u>	<u>551,598</u>	<u>551,598</u>
Total expenditures	<u>540,518</u>	<u>551,598</u>	<u>1,092,116</u>
Net change in fund balance	14,039	-	14,039
Fund balance - Beginning of year	<u>127,587</u>	<u>-</u>	<u>127,587</u>
Fund balance - End of year	<u>\$ 141,626</u>	<u>\$ -</u>	<u>\$ 141,626</u>

See accompanying notes to the financial statements.

HUDSON YARDS DEVELOPMENT CORPORATION
(A Component Unit of The City of New York)

Notes to Financial Statements
As of and for the Years Ended June 30, 2017 and 2016

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 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 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, 2017 and 2016, 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.

HUDSON YARDS DEVELOPMENT CORPORATION
(A Component Unit of The City of New York)

Notes to Financial Statements
As of and for the Years Ended June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Resources constrained for capital projects in accordance with certain funding agreements are classified as restricted on the statements of net 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.

HUDSON YARDS DEVELOPMENT CORPORATION
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Notes to Financial Statements
As of and for the Years Ended June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 74”). GASB 74 establishes financial reporting standards for state and local governmental other postemployment benefit (“OPEB”) plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 74 did not have an impact on HYDC’s financial statements, as HYDC is not an OPEB plan.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employees. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 75 did not have an impact on HYDC’s financial statements, as its employees are not in an OPEB plan.
- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, (“GASB 83”). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018. HYDC has not completed the process of evaluating GASB 83, but does not expect it to have an impact on HYDC’s financial statements.
- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, (“GASB 84”). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. HYDC has not completed the process of evaluating GASB 84, but does not expect it to have an impact on HYDC’s financial statements, as it does not enter in fiduciary activities.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, (“GASB 85”). The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB statements. The requirements of GASB 85 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 85 did not have an impact on HYDC’s financial statements.
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, (“GASB 86”). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets are acquired with only existing resources – resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. HYDC has not completed the process of evaluating GASB 86, but does not expect it to have an impact on HYDC’s financial statements, as HYDC has no long-term debt.

HUDSON YARDS DEVELOPMENT CORPORATION
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Notes to Financial Statements
As of and for the Years Ended June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2017, GASB issued Statement No. 87, *Leases*, (“GASB 87”). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. HYDC has not completed the process of evaluating GASB 87, but does not expect it to have an impact on HYDC’s financial statements, as HYDC has not entered into any lease agreements.

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. The FDIC provides deposit insurance coverage of up to \$250,000 per depositor. As of June 30, 2017 and 2016, HYDC’s cash consisted of bank deposits in the amount of \$94,502 and \$304,135, 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, 2017 and 2016, JPMorgan Chase Bank, N.A. maintained a total of \$0 and \$57,800, 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.

**HUDSON YARDS DEVELOPMENT CORPORATION
(A Component Unit of The City of New York)**

**Notes to Financial Statements
As of and for the Years Ended June 30, 2017 and 2016**

NOTE 4 – DEFINED CONTRIBUTION PLAN (continued)

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, 2017 and 2016, HYDC contributed \$28,437 and \$22,483, 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, 2017 and 2016, plan assets and liabilities are not reflected in the accompanying financial statements.

NOTE 5 – RETROACTIVE ASSIGNMENT TO HYDC OF RETAINER ASSIGNMENT

In September 2008, the retainer agreement (the "Retainer Agreement") between The City of New York Law Department (the "Law Department") and Carter, Ledyard & Milburn ("CLM") to provide legal, appraisal, title search and other associated services ("Services"), was assigned to HYDC, retroactive to September 1, 2006. HYDC amended the Retainer Agreement to increase the contract amount to \$8,000,000, again in April 2011, to \$10,000,000, then again in November 2014, to \$13,000,000. The term was extended until the earlier of the completion of the Services or the performance of Services in the amount of the \$13,000,000. 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, 2017 and 2016, condemnation counsel expenses paid to CLM amounted to \$216,097 and \$542,598, respectively, and such amounts are included in Project expenses in the accompanying financial statements.

**HUDSON YARDS DEVELOPMENT CORPORATION
(A Component Unit of The City of New York)**

**Notes to Financial Statements
As of and for the Years Ended June 30, 2017 and 2016**

NOTE 6 – 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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