



HUDSON YARDS DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2015 and 2014

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, 2015 AND 2014

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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, 2015 and 2014 and the statements of activities for the years then ended, and the governmental funds balance sheets as of June 30, 2015 and 2014 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, 2015 and 2014, 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.

Handwritten signature of Mark Paneth in cursive script.

New York, NY
September 25, 2015

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, 2015 and 2014 (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, 2015 and 2014. 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 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, 2015 and 2014, 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, 2015 and 2014, 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 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.

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, 2015 and 2014 (Unaudited)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summarizes HYDC's assets, liabilities and net position as of June 30, 2015, 2014 and 2013:

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>Change 2015 vs. 2014</u> | <u>Change 2014 vs. 2013</u> |
|--|-------------------|------------------|------------------|---------------------------------|---------------------------------|
| Assets: | | | | | |
| Unrestricted cash and cash equivalents | \$ 188,101 | \$ 85,170 | \$ 60,907 | \$ 102,931 | \$ 24,263 |
| Restricted cash and cash equivalents | - | - | 38,590 | - | (38,590) |
| Receivable from Hudson Yards Infrastructure Corporation | 124,081 | 140,639 | 203,595 | (16,558) | (62,956) |
| Other receivables | - | 33,016 | 857 | (33,016) | 32,159 |
| Prepaid expenses and other assets | <u>710</u> | <u>2,486</u> | <u>19,295</u> | <u>(1,776)</u> | <u>(16,809)</u> |
| Total Assets | <u>312,892</u> | <u>261,311</u> | <u>323,244</u> | <u>51,581</u> | <u>(61,933)</u> |
| Liabilities: | | | | | |
| Accounts payable | 35,010 | 11,195 | 47,529 | 23,815 | (36,334) |
| Accrued operating expenses | 32,029 | 74,599 | 81,240 | (42,570) | (6,641) |
| Accrued project expenses | <u>118,266</u> | <u>138,708</u> | <u>171,165</u> | <u>(20,442)</u> | <u>(32,457)</u> |
| Total Liabilities | <u>185,305</u> | <u>224,502</u> | <u>299,934</u> | <u>(39,197)</u> | <u>(75,432)</u> |
| Net position: | | | | | |
| Restricted for capital projects | - | - | 38,590 | - | (38,590) |
| Unrestricted (deficit) | <u>127,587</u> | <u>36,809</u> | <u>(15,280)</u> | <u>90,778</u> | <u>52,089</u> |
| Total Net Position | <u>\$ 127,587</u> | <u>\$ 36,809</u> | <u>\$ 23,310</u> | <u>\$ 90,778</u> | <u>\$ 13,499</u> |

Total assets at June 30, 2015, increased by \$51,581 because revenue was more than HYDC expenses incurred. Total assets in fiscal year 2014 decreased by \$61,933 primarily due to a decrease in receivables from the Hudson Yards Infrastructure Corporation ("HYIC"). The balance in other receivables for fiscal year 2014 consisted of the lease security deposit, receivables from the sale of office furniture, and reimbursement for costs incurred during HYDC's office relocation (see Note 6).

Total liabilities decreased for fiscal years 2015 and 2014 by \$39,197 and \$75,432, respectively. This is primarily due to the reduction in administrative and Project expenses.

The net position increased for fiscal years 2015 and 2014 by \$90,778 and \$13,449, respectively, primarily as a result of changes to the assets and liabilities noted above.

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, 2015 and 2014 (Unaudited)

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

The following summarizes the activities of HYDC for the years ended June 30, 2015, 2014, and 2013:

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>Change 2015 vs. 2014</u> | <u>Change 2014 vs. 2013</u> |
|--|-------------------|------------------|------------------|---------------------------------|---------------------------------|
| Revenues: | | | | | |
| Hudson Yards Infrastructure Corporation payments | \$ 1,342,838 | \$ 2,326,571 | \$ 1,979,643 | \$ (983,733) | \$ 346,928 |
| Eastern Rail Yards | 124,000 | - | - | 124,000 | - |
| Interest and miscellaneous revenue | 187 | 5,195 | 20,827 | (5,008) | (15,632) |
| Total revenues | <u>1,467,025</u> | <u>2,331,766</u> | <u>2,000,470</u> | <u>(864,741)</u> | <u>331,296</u> |
| Expenses: | | | | | |
| General and administrative | 626,918 | 1,622,759 | 1,869,932 | (995,841) | (247,173) |
| Project | 749,329 | 695,508 | 532,911 | 53,821 | 162,597 |
| Total expenses | <u>1,376,247</u> | <u>2,318,267</u> | <u>2,402,843</u> | <u>(942,020)</u> | <u>(84,576)</u> |
| Change in net position | 90,778 | 13,499 | (402,373) | 77,279 | 415,872 |
| Net position - beginning of year | <u>36,809</u> | <u>23,310</u> | <u>425,683</u> | <u>13,499</u> | <u>(402,373)</u> |
| Net position - end of year | <u>\$ 127,587</u> | <u>\$ 36,809</u> | <u>\$ 23,310</u> | <u>\$ 90,778</u> | <u>\$ 13,499</u> |

Revenue from HYIC decreased in fiscal year 2015 by \$983,733. This was primarily related to the decrease in general and administrative expenses of \$995,841 due to a 70% reduction in personnel costs and the elimination of rent expense. In June 2014, HYDC relocated its offices to the New York City Office of Management and Budget (“OMB”) and later to the New York City Economic Development Corporation (“EDC”). Due to HYDC’s reduced staff size, OMB and EDC have not required HYDC to pay rent to date (see Note 6).

During fiscal year 2015, HYDC received revenues and incurred expenses of \$124,000 related to the appraisals necessary for the sale of Eastern Rail Yards Transferrable Development Rights (“ERY TDRs”) to owners of certain properties within the Large Scale Plan Subdistrict (“Subdistrict A”) of the Special Hudson Yards District.

During fiscal year 2014, there was an increase in HYIC revenues of \$346,928 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.

Expenses decreased in fiscal year 2014 by \$84,576 inclusive of a 13% reduction in personnel related expenses.

Net position increased in fiscal year 2015 and 2014 by \$90,778 and \$13,499, respectively, as a result of the revenue and expenses noted above.

HUDSON YARDS DEVELOPMENT CORPORATION
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Management's Discussion and Analysis
As of and for the Years Ended June 30, 2015 and 2014 (Unaudited)

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, 2015, 2014, and 2013:

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>Change 2015 vs. 2014</u> | <u>Change 2014 vs. 2013</u> |
|---|-------------------|------------------|--------------------|---------------------------------|---------------------------------|
| Revenues: | | | | | |
| Hudson Yards Infrastructure Corporation payments | \$ 717,509 | \$ 1,631,063 | \$ 1,446,732 | \$ (913,554) | \$ 184,331 |
| Interest and miscellaneous revenue | 187 | 5,195 | 20,827 | (5,008) | (15,632) |
| Total revenues | <u>717,696</u> | <u>1,636,258</u> | <u>1,467,559</u> | <u>(918,562)</u> | <u>168,699</u> |
| Expenditures: | | | | | |
| General and administrative | 626,918 | 1,622,759 | 1,869,932 | (995,841) | (247,173) |
| Total expenditures | <u>626,918</u> | <u>1,622,759</u> | <u>1,869,932</u> | <u>(995,841)</u> | <u>(247,173)</u> |
| Other financing sources: | | | | | |
| Transfer from capital projects fund | - | 38,590 | - | (38,590) | 38,590 |
| Total other financing sources | <u>-</u> | <u>38,590</u> | <u>-</u> | <u>(38,590)</u> | <u>38,590</u> |
| Net change in fund balance | 90,778 | 52,089 | (402,373) | 38,689 | 454,462 |
| Fund balance (deficit) - beginning of year | <u>36,809</u> | <u>(15,280)</u> | <u>387,093</u> | <u>52,089</u> | <u>(402,373)</u> |
| Fund balance (deficit) - end of year | <u>\$ 127,587</u> | <u>\$ 36,809</u> | <u>\$ (15,280)</u> | <u>\$ 90,778</u> | <u>\$ 52,089</u> |

The GF revenue decreased in fiscal year 2015 by \$918,562, primarily due to a reduction in personnel costs and the elimination of rent expense. In June 2014, HYDC relocated its offices to OMB and later to EDC. Due to HYDC’s reduced staff size, OMB and EDC have not required HYDC to pay rent to date (see Note 6).

The GF revenues increased in fiscal year 2014 by \$168,699. HYDC received its first quarter fiscal 2013 funding from HYIC in fiscal year 2012 in the amount of \$320,185. As a result, HYDC recognized the payment as revenue in fiscal year 2012 which caused the GF revenue to reflect one less payment in fiscal year 2013.

The GF expenses decreased in fiscal year 2015 by \$995,841 primarily due to the reduction in personnel costs and the elimination of rent expense as noted above. The expenses decreased in fiscal year 2014 by \$247,173 also primarily due to a reduction in personnel related costs.

There was a transfer of \$38,590 from the CPF in fiscal 2014.

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, 2015 and 2014 (Unaudited)

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, 2015, 2014, and 2013:

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>Change 2015 vs. 2014</u> | <u>Change 2014 vs. 2013</u> |
|--|----------------|-----------------|------------------|---------------------------------|---------------------------------|
| Revenues: | | | | | |
| Hudson Yards Infrastructure Corporation payments | \$ 625,329 | \$ 695,508 | \$ 532,911 | \$ (70,179) | \$ 162,597 |
| Eastern Rail Yards | 124,000 | - | - | 124,000 | - |
| Total revenues | <u>749,329</u> | <u>695,508</u> | <u>532,911</u> | <u>53,821</u> | <u>162,597</u> |
| Expenditures: | | | | | |
| Project | <u>749,329</u> | <u>695,508</u> | <u>532,911</u> | <u>53,821</u> | <u>162,597</u> |
| Total expenditures | <u>749,329</u> | <u>695,508</u> | <u>532,911</u> | <u>53,821</u> | <u>162,597</u> |
| Other financing uses: | | | | | |
| Transfer to general fund | - | (38,590) | - | 38,590 | (38,590) |
| Total other financing uses | <u>-</u> | <u>(38,590)</u> | <u>-</u> | <u>38,590</u> | <u>(38,590)</u> |
| Net change in fund balance | - | (38,590) | - | 38,590 | (38,590) |
| Fund balance - beginning of year | <u>-</u> | <u>38,590</u> | <u>38,590</u> | <u>(38,590)</u> | <u>-</u> |
| Fund balance - end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,590</u> | <u>\$ -</u> | <u>\$ (38,590)</u> |

Total CPF revenues and expenditures increased in fiscal year 2015 by \$53,821 due to a \$70,179 decrease of Project related condemnation counsel revenues and expenditures, which was offset by a \$124,000 increase in revenue and expenditures related to the appraisals necessary for the sale of ERY TDRs to owners of certain properties within Subdistrict A of the Special Hudson Yards District.

Total CPF revenues and expenditures increased in fiscal 2014 of \$162,597 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 2015 and 2014 indicates that the capital projects funds received have been expended.

HUDSON YARDS DEVELOPMENT CORPORATION
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Management's Discussion and Analysis
As of and for the Years Ended June 30, 2015 and 2014 (Unaudited)

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

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2015, 2014 and 2013:

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>Change 2015 vs. 2014</u> | <u>Change 2014 vs. 2013</u> |
|--|-------------------|-------------------|-------------------|---------------------------------|---------------------------------|
| Assets: | | | | | |
| Unrestricted cash and cash equivalents | \$ 188,101 | \$ 85,170 | \$ 60,907 | \$ 102,931 | \$ 24,263 |
| Receivable from Hudson Yards Infrastructure Corporation | 5,815 | 1,931 | 32,430 | 3,884 | (30,499) |
| Other receivables | - | 33,016 | 857 | (33,016) | 32,159 |
| Prepaid expenses and other assets | 710 | 2,486 | 19,295 | (1,776) | (16,809) |
| Total assets | <u>\$ 194,626</u> | <u>\$ 122,603</u> | <u>\$ 113,489</u> | <u>\$ 72,023</u> | <u>\$ 9,114</u> |
| Liabilities: | | | | | |
| Accounts payable and accrued operating expenses | \$ 67,039 | \$ 85,794 | \$ 128,769 | \$ (18,755) | \$ (42,975) |
| Total liabilities | <u>67,039</u> | <u>85,794</u> | <u>128,769</u> | <u>(18,755)</u> | <u>(42,975)</u> |
| Fund balance (deficit): | | | | | |
| Nonspendable prepaid expenses and other assets | 710 | 2,486 | 19,295 | (1,776) | (16,809) |
| Unassigned | 126,877 | 34,323 | (34,575) | 92,554 | 68,898 |
| Total fund balance (deficit) | <u>127,587</u> | <u>36,809</u> | <u>(15,280)</u> | <u>90,778</u> | <u>52,089</u> |
| Total liabilities and fund balance | <u>\$ 194,626</u> | <u>\$ 122,603</u> | <u>\$ 113,489</u> | <u>109,533</u> | <u>95,064</u> |

Total GF assets increased in fiscal years 2015 and 2014 by \$72,023 and \$9,114, respectively. This was primarily due to having unspent cash at year-end needed to pay remaining fiscal year expenditures.

The increase of other receivables in 2014 is primarily due to the sale of furniture and reimbursement expenses for the HYDC office. These receivables were subsequently collected in fiscal year 2015.

Total GF liabilities decreased in fiscal years 2015 and 2014 by \$18,755 and \$42,975, respectively, due to the reduction in general operating and administrative expenditures, as previously discussed.

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, 2015, 2014 and 2013:

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>Change 2015 vs. 2014</u> | <u>Change 2014 vs. 2013</u> |
|--|-------------------|-------------------|-------------------|---------------------------------|---------------------------------|
| Assets: | | | | | |
| Restricted cash and cash equivalents | \$ - | \$ - | \$ 38,590 | \$ - | \$ (38,590) |
| Receivable from Hudson Yards Infrastructure Corporation | 118,266 | 138,708 | 171,165 | (20,442) | (32,457) |
| Total assets | <u>\$ 118,266</u> | <u>\$ 138,708</u> | <u>\$ 209,755</u> | <u>\$ (20,442)</u> | <u>\$ (71,047)</u> |
| Liabilities: | | | | | |
| Accrued project expenses | \$ 118,266 | \$ 138,708 | \$ 171,165 | \$ (20,442) | \$ (32,457) |
| Total liabilities | <u>118,266</u> | <u>138,708</u> | <u>171,165</u> | <u>(20,442)</u> | <u>(32,457)</u> |
| Fund Balance: | | | | | |
| Restricted | - | - | 38,590 | - | (38,590) |
| Total fund balance | <u>-</u> | <u>-</u> | <u>38,590</u> | <u>-</u> | <u>(38,590)</u> |
| Total liabilities and fund balance | <u>\$ 118,266</u> | <u>\$ 138,708</u> | <u>\$ 209,755</u> | <u>\$ 20,442</u> | <u>\$ (6,133)</u> |

Total CPF assets decreased in fiscal years 2015 and 2014 by \$20,442 and \$71,047, respectively, due to the decrease in reimbursement required to pay Project expenditures and the transfer of \$38,590 to the GF in fiscal year 2014.

Total CPF liabilities decreased in fiscal years 2015 and 2014 by \$20,442 and \$32,457, respectively, due to the decrease in reimbursement required to pay Project expenditures.

The CPF had no restricted funds at the end of fiscal years 2015 and 2014. HYDC only requested and received Project funds for actual Project related expenditures incurred, thereby having no fund balances at June 30, 2015 and 2014.

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
As of June 30, 2015 and 2014

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Assets | | |
| Unrestricted cash and cash equivalents | \$ 188,101 | \$ 85,170 |
| Receivable from Hudson Yards Infrastructure Corporation | 124,081 | 140,639 |
| Other receivables | - | 33,016 |
| Prepaid expenses | 710 | 2,486 |
| Total assets | \$ 312,892 | \$ 261,311 |
| Liabilities | | |
| Accounts payable | \$ 35,010 | \$ 11,195 |
| Accrued operating expenses | 32,029 | 74,599 |
| Accrued project expenses | 118,266 | 138,708 |
| Total liabilities | 185,305 | 224,502 |
| Net position | | |
| Unrestricted | 127,587 | 36,809 |
| Total net position | \$ 127,587 | \$ 36,809 |

HUDSON YARDS DEVELOPMENT CORPORATION

(A Component Unit of The City of New York)

**Statements of Activities
For the Years Ended June 30, 2015 and 2014**

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|------------------|
| Revenues | | |
| Hudson Yards Infrastructure Corporation payments | \$ 1,342,838 | \$ 2,326,571 |
| Eastern Rail Yards | 124,000 | - |
| Interest and miscellaneous revenue | <u>187</u> | <u>5,195</u> |
| Total revenues | <u>1,467,025</u> | <u>2,331,766</u> |
| Expenses | | |
| General and administrative | 626,918 | 1,622,759 |
| Project | <u>749,329</u> | <u>695,508</u> |
| Total expenses | <u>1,376,247</u> | <u>2,318,267</u> |
| Change in net position | 90,778 | 13,499 |
| Net position - Beginning of year | <u>36,809</u> | <u>23,310</u> |
| Net position - End of year | <u>\$ 127,587</u> | <u>\$ 36,809</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, 2015

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------------|---|
| Assets | | | |
| Unrestricted cash and cash equivalents | \$ 188,101 | \$ - | \$ 188,101 |
| Receivable from Hudson Yards Infrastructure Corporation | 5,815 | 118,266 | 124,081 |
| Prepaid expenses | 710 | - | 710 |
| Total assets | \$ 194,626 | \$ 118,266 | \$ 312,892 |
| Liabilities | | | |
| Accounts payable | \$ 35,010 | \$ - | \$ 35,010 |
| Accrued operating expenses | 32,029 | - | 32,029 |
| Accrued project expenses | - | 118,266 | 118,266 |
| Total liabilities | 67,039 | 118,266 | 185,305 |
| Fund balance | | | |
| Nonspendable prepaid expenses and other assets | 710 | - | 710 |
| Unassigned | 126,877 | - | 126,877 |
| Total fund balance | 127,587 | - | 127,587 |
| Total liabilities and fund balance | \$ 194,626 | \$ 118,266 | \$ 312,892 |

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

Governmental Funds Balance Sheet
As of 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 | | | |
| Nonspendable prepaid expenses and other assets | 2,486 | - | 2,486 |
| Unassigned | <u>34,323</u> | <u>-</u> | <u>34,323</u> |
| Total fund balance | <u>36,809</u> | <u>-</u> | <u>36,809</u> |
| Total liabilities and fund balance | <u>\$ 122,603</u> | <u>\$ 138,708</u> | <u>\$ 261,311</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, 2015

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------------|---|
| Revenues | | | |
| Hudson Yards Infrastructure Corporation payments | \$ 717,509 | \$ 625,329 | \$ 1,342,838 |
| Eastern Rail Yards | - | 124,000 | 124,000 |
| Interest and miscellaneous revenue | 187 | - | 187 |
| Total revenues | 717,696 | 749,329 | 1,467,025 |
| Expenditures | | | |
| General and administrative | 626,918 | - | 626,918 |
| Project | - | 749,329 | 749,329 |
| Total expenditures | 626,918 | 749,329 | 1,376,247 |
| Net change in fund balance | 90,778 | - | 90,778 |
| Fund balance - Beginning of year | 36,809 | - | 36,809 |
| Fund balance - End of year | \$ 127,587 | \$ - | \$ 127,587 |

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, 2014

| | <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 | \$ 1,631,063 | \$ 695,508 | \$ 2,326,571 |
| Interest and miscellaneous revenue | <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 | <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 - Beginning of year | <u>(15,280)</u> | <u>38,590</u> | <u>23,310</u> |
| Fund balance - End of year | <u>\$ 36,809</u> | <u>\$ -</u> | <u>\$ 36,809</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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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
(A Component Unit of The City of New York)

Notes to Financial Statements
As of and for the Years Ended June 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”). GASB 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015; however, the provisions of GASB 72 were adopted by HYDC during fiscal year 2015. The adoption of GASB 72 did not have an impact on HYDC’s financial statements as HYDC does not have any assets or liabilities measured at fair value.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68* (“GASB 73”). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. HYDC has not completed the process of evaluating GASB 73, but does not expect it to have an impact on HYDC’s financial statements.
- 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 to state and local governmental other postemployment benefit (“OPEB”) plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. HYDC has not completed the process of evaluating GASB 74, but does not expect it to have an impact on HYDC’s financial statements.
- 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 employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. HYDC has not completed the process of evaluating GASB 75, but does not expect it to have an impact on HYDC’s financial statements.
- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. HYDC has not completed the process of evaluating GASB 76, but does not expect it 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. The FDIC provides deposit insurance coverage of up to \$250,000 per depositor. As of June 30, 2015 and 2014, HYDC’s cash consisted of bank deposits in the amount of \$188,101 and \$85,170, 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, 2015 and 2014, 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
(A Component Unit of The City of New York)**

**Notes to Financial Statements
As of and for the Years Ended June 30, 2015 and 2014**

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 | 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, 2015 and 2014, HYDC contributed \$16,110 and \$80,145, 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, 2015 and 2014, 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 & Millburn (“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, 2015 and 2014, condemnation counsel expenses paid to CLM amounted to \$625,329 and \$578,244, 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, 2015 and 2014

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.

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 its offices to the New York City Office of Management and Budget (“OMB”) and later to the New York City Economic Development Corporation (“EDC”). As a blended component unit of the City, the move allowed HYDC to work closer with its City counterparts. Due to HYDC’s reduced staff size, OMB and EDC have not required HYDC to pay rent to date. Accordingly, there are no future minimum lease payments required for fiscal years after June 30, 2014. The security deposit held by the building landlord was returned to HYDC in fiscal year 2015.

For the years ended June 30, 2015 and 2014, rent expense amounted to approximately \$0 and \$563,000 (including the \$295,000 lease buyout payment), 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.

* * * * *