

An aerial photograph of a city, likely New York City, showing a dense urban landscape with various buildings, streets, and green spaces. A thick magenta line is drawn across the image, starting from the bottom left, curving upwards and to the right, and then extending horizontally towards the top right. A magenta circle with the white number '7' is positioned on the line, near the bottom left corner of the image.

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# HYIC

Hudson Yards Infrastructure Corporation

A Component Unit of The City of New York

**2011 Annual Report**

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# Letter from the President

We are pleased to present the annual report for the Hudson Yards Infrastructure Corporation (HYIC) for the fiscal year ending June 30, 2011. HYIC is a local development corporation created in 2005 by the City of New York (the “City”) under the Not-For-Profit Corporation Law of the State of New York.

The Corporation was created to finance certain property acquisition and infrastructure work (the “Project”), including the extension of the No. 7 subway line, as part of the development of the Hudson Yards Financing District, the approximately 45 square block area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Eleventh and Twelfth Avenues on the west, and West 29th and 30th Streets on the south (the “Project Area”).

The Hudson Yards Development Corporation (“HYDC”) is a local development corporation created by the City to manage and implement the Project. It has its own distinct audited financial statements, which are published separately from the audited financial statements of HYIC.

The HYIC’s operations consist of carrying out the requirements of its indenture, including collecting revenues, applying revenues to pay principal and interest on its bonds and disbursing bond proceeds to pay Project costs. HYIC is legally separate both from the City and from the HYDC. As an instrumentality of the City, HYIC is included in the City’s financial statements as a blended component unit. HYIC does not have any employees; its affairs are administered by the employees of the City and of another component unit of the City, for which HYIC pays a management fee, rent and overhead.

On December 21, 2006, HYIC issued \$2 billion of bonds. The bonds received credit ratings of “A”, “A3”, and A- from Standard & Poor’s Ratings Services, Moody’s Investors Service, and Fitch, Inc. After the initial HYIC bond sale in 2006, the credit ratings of HYIC were increased by Moody’s Investors Service to A2 from A3, and by Fitch, Inc. to A from A-. After meeting with the three rating agencies this summer, the bond ratings on HYIC were confirmed unchanged at A2 from Moody’s and A from both Standard and Poor’s and Fitch.

Following the end of Fiscal Year 2011, HYIC, together with staff of OMB, HYDC and the City Comptroller’s Office, worked with its advisors, including J.P. Morgan and Goldman Sachs, the senior managing banks which had led the first transaction in 2006, as well as Cushman & Wakefield and Moody’s Analytics, which had prepared the economic and real estate forecasts underlying the initial sale, to prepare for the next sale of \$1 billion of HYIC bonds to complete the Project.

On October 19, 2011, HYIC priced the remaining \$1 billion of bonds to complete the Project. HYIC sold the bonds on a negotiated basis through its underwriting syndicate led by book-running senior manager J. P. Morgan, with Goldman, Sachs & Co. serving as co-senior manager on the sale.

The yields on the bonds ranged from 5.00% on the \$50 million of par bonds insured by Assured Guaranty Municipal Corp. (“AGM”), to 5.10% on the \$650 million of uninsured premium bonds to 5.25% on the \$300 million of uninsured par bonds. Demand for the bonds was strong and broadbased, and HYIC received \$3.6 billion of priority orders for the \$1 billion of bonds offered.

Under the Support and Development Agreement between HYIC, HYDC and the City, the City has agreed to make payments, subject to annual appropriation, in an amount sufficient, together with any revenues HYIC receives from development to pay interest on its bonds, for as long as those bonds are outstanding. The principal amount of bonds which HYIC may issue that are entitled to the benefits of the Interest Support Agreement is capped at \$3 billion.

HYIC resources pledged to HYIC bonds, in addition to interest support payments from the City, include payments in lieu of property taxes and mortgage recording taxes received as a result of development in the Project Area, tax equivalency payments by the City equal to real property taxes or payments in lieu of taxes received by the City on new developments in the Project Area, certain payments from the sale of the transferable development rights over the Eastern Railyard purchased by HYIC from the Triborough Bridge and Tunnel Authority and payments by property owners to obtain additional density for developments in the Project Area.

A Subway Extension Memorandum of Understanding entered into between the HYIC, the City, HYDC and the Metropolitan Transportation Authority (the “MTA”) provided that HYIC, the City or HYDC would fund the extension of the the No. 7 subway line approximately two miles from its terminus on West 41st Street between Seventh and Eighth Avenues westward under West 41st Street to Eleventh Avenue and then southward to a new terminal station at West 34th Street and Eleventh Avenue. The No. 7 line extension is being constructed and will be operated by the MTA.

*Very truly yours,*

**Alan Anders**  
President

# The Plan

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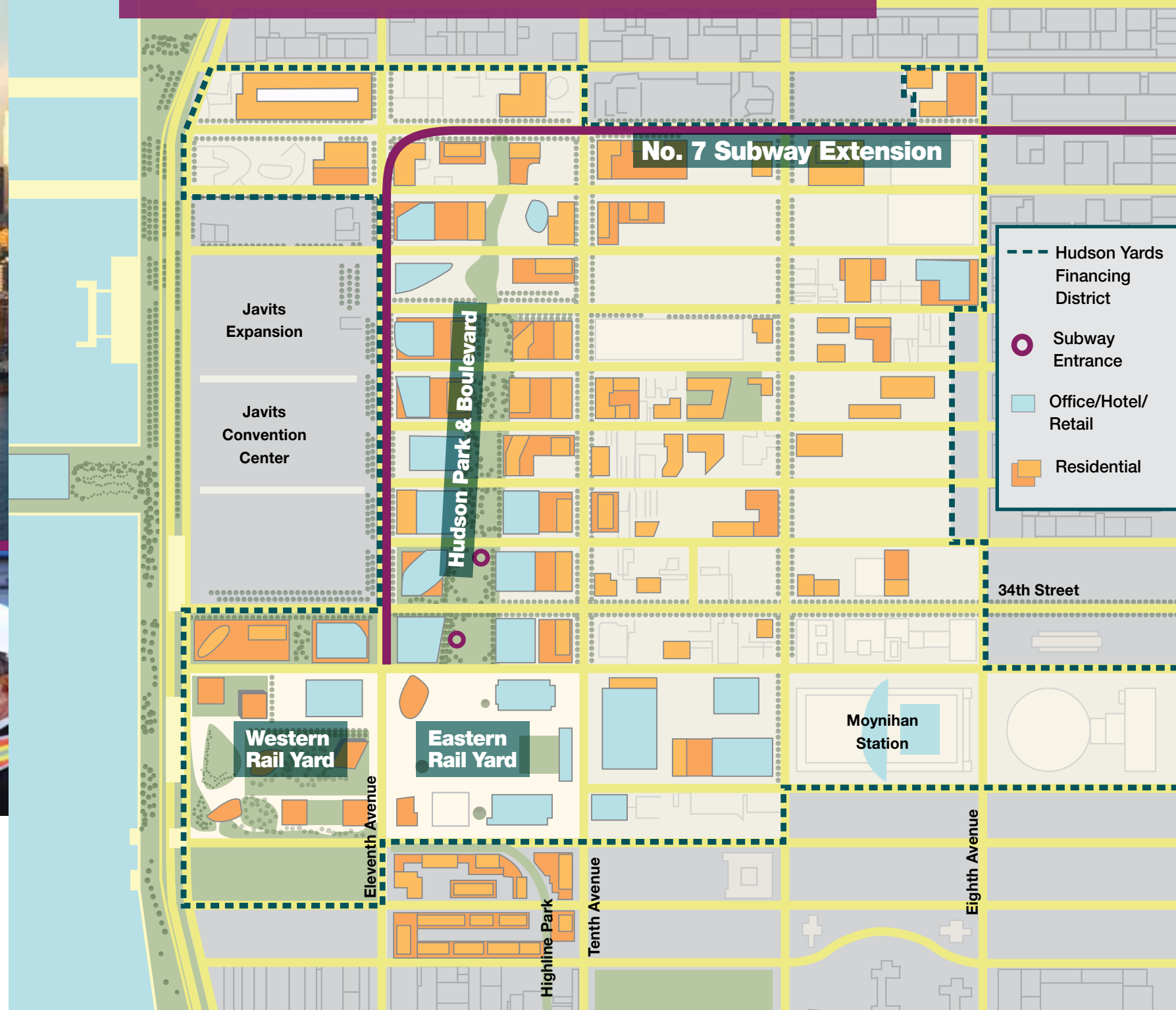
Rendering of Related's Planned Development

“Hudson Yards is the most exciting opportunity New York has.”

— Mayor Bloomberg



## Hudson Yards Financing District





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## Financial Statements

as of and for the years ended  
June 30, 2011 and 2010

HYIC fulfills its purpose through the issuances of bonds to finance the Project, including the operations of HYDC, and the collection of revenues to support its operations and service its debt.

## Independent Auditors’ Report

**To the Members of the Board of Directors and the Audit Committee of the Hudson Yards Infrastructure Corporation:**

We have audited the accompanying financial statements of the governmental activities of Hudson Yards Infrastructure Corporation (“HYIC”), a component unit of The City of New York, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of HYIC’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of HYIC as of and for the year ended June 30, 2010 were audited by other auditors whose report dated September 17, 2010 expressed an unqualified opinion on those statements. As discussed in Note 2, HYIC has restated its governmental funds financial statements as of and for the year ended June 30, 2010 during the current year to implement Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The other auditors reported on the financial statements as of and for the year ended June 30, 2010 before the restatement.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Hudson Yards Infrastructure Corporation as of June 30, 2011 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 2 that were applied to restate the June 30, 2010 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.


The accompanying management’s discussion and analysis on pages 7 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Marks Paneth & Shron LLP*

New York, NY  
September 28, 2011

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## Management’s Discussion and Analysis

As of and for the years ended June 30, 2011 and 2010

### OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of the Hudson Yards Infrastructure Corporation (“HYIC”) as of June 30, 2011 and 2010 and for the years then ended. It should be read in conjunction with HYIC’s government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of three parts: (1) management’s discussion and analysis (this section); (2) the government-wide financial statements; and (3) the governmental funds financial statements.

The government-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about HYIC as a whole, in accordance with Governmental Accounting Standards Board (“GASB”) standards. This is to provide the reader with a broad overview of HYIC’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 cash flows.

HYIC’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, except for principal and interest on bonds payable and liabilities on arbitrage rebate payable, which are recognized when due.

The reconciliations of the governmental funds balance sheets to the statements of net assets (deficit) and reconciliation of the governmental funds statements of revenues, expenditures and changes in fund balances to the statements of activities are presented to assist the reader in understanding the differences between government-wide and governmental funds financial statements.

### ORGANIZATIONAL OVERVIEW

HYIC’s purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the “Project”). HYIC does not engage in the development directly, but finances the development which is spearheaded by the Hudson Yards Development Corporation (“HYDC”) and carried out by existing public entities. The Project is 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) design and construction of an extension of the No. 7 Subway from its current terminus at 7th Avenue and 41st Street to a new station at 11th Avenue and West 34th Street (the “Subway Extension”), (2) acquisition from the Metropolitan Transportation Authority (“MTA”) of certain transferable development rights (“TDRs”) 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 the first phase of a system of parks, public open spaces, and streets in the Project Area (“Public Amenities”) and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuances of bonds to finance the Project, including the operations of HYDC, and the collection of revenues to support its operations and service its debt. HYIC revenues include and/or will include: (1) Interest Support Payments (“ISP”) to be made by The City of New York (“The City”) under the terms of the Support and Development Agreement (“Agreement”) that obligates The City to pay to HYIC, subject to annual appropriation, ISPs on up to \$3 billion of HYIC bonds in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds; (2) payments in lieu of real estate taxes (“PILOT”) that have been assigned to HYIC under agreements with the New York City Industrial Development Agency (“IDA”), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others (“PILOT Agreements”); (3) Tax Equivalency Payments (“TEP”) to be made by The City under the terms of the Agreement, which obligates The

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

ORGANIZATIONAL OVERVIEW (continued)

City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by The City on new development (including substantial rehabilitation of existing buildings) in the Project Area; (4) District Improvement Bonuses (“DIB”) paid by private developers in exchange for the right to create additional density in the Project Area; and (5) payments in lieu of the mortgage recording tax (“PILOMRT”) required to be made by private developers entering into PILOT Agreements. PILOT Agreements are expected to be entered into by developers because the PILOT payments during the first 19 years will be substantially lower than the real estate taxes that would otherwise be due. Interest earned on unspent bond proceeds is generally used for debt service, in accordance with the terms of the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the “Indenture”).

Proceeds received by HYIC for sales of the TDRs (as discussed below), up to the amount of HYIC’s investment (including the \$200 million purchase price and interest costs thereon), will also be used by HYIC to support its operations and service its debt.

The Conversion Date is the date on which HYIC certifies that, for each of the two preceding fiscal years, HYIC’s PILOT payments plus TEP revenues less HYIC’s operating expenses (“Net Recurring Revenues”) were not less than 125% of the maximum annual debt service on all then outstanding senior bonds and not less than 105% of maximum annual debt service on all outstanding bonds. After the date on which bonds are first callable (February 15, 2017) and prior to the Conversion Date, all revenues received by HYIC in a fiscal year remaining after funding operating expenses and interest must be used to purchase or redeem senior bonds in advance of their maturity, except that, if, during such fiscal year, The City has made ISPs, then HYIC must first reimburse The City for such ISPs. Prior to the Conversion Date, HYIC is not obligated to

make any payments of principal of its bonds prior to maturity unless and until HYIC receives revenues in amounts sufficient to make such payments. After the Conversion Date, HYIC must establish a schedule of sinking fund installments for all outstanding debt no later than June 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

On December 21, 2006, HYIC issued its Fiscal 2007 Series A Senior Revenue Bonds (“Bonds”) in the amount of \$2 billion, to partially finance the Project. The Bonds are term bonds with semiannual interest payment dates beginning in August 15, 2007 and maturing on February 15, 2047. As discussed above, prior to the Conversion Date, HYIC is not obligated to make any payments of principal on the Bonds prior to maturity, unless and until – and to the extent that – HYIC receives revenues in amounts sufficient to make such payments.

On December 28, 2006, HYIC acquired a 50% interest in TDRs upon making the first \$100 million payment required under the terms of the purchase agreement among The City, the MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company (“TDR Agreement”). The TDR Agreement required HYIC to make three additional annual payments in the amount of \$33.3 million in September of 2007, 2008 and 2009 for this interest; all of which were made in accordance with the agreement. The full value of the TDR, including the purchase price and interest costs thereon, is reflected as an asset in HYIC’s financial statements (on the governmental funds balance sheets and the statements of net assets (deficit)).

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

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

The following summarizes the activities of HYIC for the years ended June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
<b>REVENUES:</b>					
Program revenue	\$ 30,572	\$ 13,318	\$ 12,328	\$ 17,254	\$ 990
Other revenue	45,296	19,960	72,630	25,336	(52,670)
<b>TOTAL REVENUES</b>	<b>75,868</b>	<b>33,278</b>	<b>84,958</b>	<b>42,590</b>	<b>(51,680)</b>
<b>EXPENSES:</b>					
Project	348,076	384,589	353,259	(36,513)	31,330
Bond interest	85,652	86,030	87,576	(378)	(1,546)
Arbitrage rebate	(1,419)	1,430	3,389	(2,849)	(1,959)
Other	1,585	1,476	1,381	109	95
<b>TOTAL EXPENSES</b>	<b>433,894</b>	<b>473,525</b>	<b>445,605</b>	<b>(39,631)</b>	<b>27,920</b>
<b>CHANGE IN NET ASSETS</b>	<b>(358,026)</b>	<b>(440,247)</b>	<b>(360,647)</b>	<b>82,221</b>	<b>(79,600)</b>
<b>NET (DEFICIT) – Beginning of year</b>	<b>(1,329,113)</b>	<b>(888,866)</b>	<b>(528,219)</b>	<b>(440,247)</b>	<b>(360,647)</b>
<b>NET (DEFICIT) – End of year</b>	<b>\$ (1,687,139)</b>	<b>\$ (1,329,113)</b>	<b>\$ (888,866)</b>	<b>\$ (358,026)</b>	<b>\$ (440,247)</b>

For the fiscal years ended June 30, 2011 and 2009, program revenue was comprised of DIB and TEP, compared to fiscal years 2010 where program revenue was only comprised of TEP. HYIC recognized approximately \$31 million of program revenue in fiscal year 2011 compared to approximately \$13 million in fiscal year 2010. The increase in fiscal year 2011 was due to the collection of \$12.6 million more of TEP, as new development progressed in the Project Area. In addition, HYIC collected \$4.6 million of DIB in fiscal year 2011, it did not collect DIB in fiscal year 2010.

HYIC recognized approximately \$13 million of program revenue in fiscal year 2010 compared to approximately \$12 million in fiscal year 2009. Although, there was an increase of only approximately \$1 million, the increase was due to the collection of approximately \$5 million more of TEP, as new development progressed in the

Project Area. The increase in TEP was substantially offset by the absence of DIB, as there were no applications submitted by developers for additional density development in fiscal year 2010.

Other revenue in fiscal year 2011 was comprised of \$42.7 million of ISPs and \$2.6 million of investment earnings, compared to fiscal year 2010 when other revenue was only comprised of \$19.9 million of investment earnings. There was a significant decrease of investment earnings in fiscal year 2011, because as bond proceeds were drawn down to pay project costs, the reduced holdings resulted in lower investment earnings. The decrease in investment earnings was offset by the collection of ISPs in fiscal year 2011.

Other revenue, comprised of investment earnings, decreased significantly in fiscal year 2010 compared to fiscal year 2009

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS –  
GOVERNMENT-WIDE FINANCIAL STATEMENTS

(continued)

because, as bond proceeds were drawn down to pay project costs, the reduced holdings resulted in lower investment earnings.

Project expenses incurred during fiscal year 2011 were approximately \$348 million compared to fiscal year 2010 when HYIC incurred approximately \$385 million in project expenses. Subway extension expenses decreased by approximately \$35 million as major tunneling work was completed in fiscal year 2011 and land acquisition and public amenities costs decreased by approximately \$2 million as a large obligation for future condemnation claims was incurred in fiscal year 2010.

Project expenses incurred during fiscal year 2010 were approximately \$385 million compared to \$353 million in fiscal year 2009. Subway extension expenses decreased by

approximately \$81 million, which were more than offset by an increase of approximately \$113 million in land acquisition costs. The increase in land acquisition expenses in fiscal year 2010 compared to fiscal year 2009 was primarily the result of an accrual of \$60 million representing an estimate of the potential future liability attributable to claims asserted in condemnation proceedings (see note 6).

Bond interest decreased slightly in fiscal years 2011 and 2010. Bond interest expense is offset by the portion attributable to bond proceeds invested in TDRs, which becomes part of the TDRs asset value (see note 5).

The decrease in investment earnings caused a decrease in arbitrage rebate expense in fiscal year 2011 and fiscal year 2010. Arbitrage is the estimated amount of interest earnings on bond proceeds above the yield of HYIC tax exempt bonds, which HYIC expects to rebate to the United States Internal Revenue Service in the future.

The following summarizes HYIC’s assets, liabilities and net assets (deficit) as of June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
<b>ASSETS:</b>					
Non-capital	\$ 581,638	\$ 941,785	\$ 1,410,209	\$ (360,147)	\$ (468,424)
<b>TOTAL ASSETS</b>	<u>581,638</u>	<u>941,785</u>	<u>1,410,209</u>	<u>(360,147)</u>	<u>(468,424)</u>
<b>LIABILITIES:</b>					
Current liabilities	118,385	102,660	190,024	15,725	(87,364)
Long-term liabilities	<u>2,150,392</u>	<u>2,168,238</u>	<u>2,109,051</u>	<u>(17,846)</u>	<u>59,187</u>
<b>TOTAL LIABILITIES</b>	<u>2,268,777</u>	<u>2,270,898</u>	<u>2,299,075</u>	<u>(2,121)</u>	<u>(28,177)</u>
<b>NET ASSETS (DEFICIT):</b>					
Restricted	161,963	538,026	1,046,889	(376,063)	(508,863)
Unrestricted	<u>(1,849,102)</u>	<u>(1,867,139)</u>	<u>(1,935,755)</u>	<u>18,037</u>	<u>68,616</u>
<b>TOTAL NET (DEFICIT)</b>	<u>\$ (1,687,139)</u>	<u>\$ (1,329,113)</u>	<u>\$ ( 888,866)</u>	<u>\$ (358,026)</u>	<u>\$ (440,247)</u>

Total assets at June 30, 2011 are lower than 2010, and June 30, 2010 assets were lower than 2009, as a result of bond proceeds

being drawn-down to pay the Project costs, as discussed previously.

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS –  
GOVERNMENT-WIDE FINANCIAL STATEMENTS

(continued)

Current liabilities increased by \$15.7 million at the end of fiscal year 2011 primarily because the arbitrage rebate payable became a current liability in fiscal year 2011, as payment is due December 2011. This increase was slightly offset by a decline in accrued Project costs, as subway extension and acquisition costs declined, as previously discussed.

Current liabilities were lower by approximately \$87 million at the end of fiscal year 2010 than fiscal year 2009 primarily because Project costs payable at year end declined by approximately \$54 million, as substantially all the Project property acquisitions and easements which were accrued in fiscal year 2009 were settled and paid for during fiscal year 2010. In addition, the final annual installment payment of \$33 million for the TDRs was made in fiscal year 2010.

Long-term liabilities decreased in fiscal year 2011 by \$17.8 million because the arbitrage rebate liability became a current liability, as previously discussed. Also, the annual amortization of bond premium reduced long-term liabilities.

Long-term liabilities increased by approximately \$59 million from fiscal year 2010 compared to fiscal year 2009. The increase was due to the recording of a \$60 million obligation related to condemnation claims, as previously discussed.

The large negative unrestricted and total net assets (deficit) balances at June 30, 2011 and 2010 are primarily due to the issuance of bonds that will be repaid from future revenues.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS –  
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

HYIC reports governmental activity using three funds: (1) a general fund (“GF”), (2) a debt service fund (“DSF”), and (3) a capital projects fund (“CPF”). In fiscal year 2011, HYIC implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (“GASB 54”). GASB 54 resulted in the creation of a general fund and the restatement of those activities that were formerly presented in the debt service fund and now reported under a general fund. HYIC now accounts for and reports in the GF its administrative and operating expenditures along with the portion of revenues and accumulated resources used or held for use to pay for those operating activities, pursuant to the Indenture.

The following summarizes the changes in the GF balances for the years ended June 30, 2011, 2010, and 2009:

(amounts in thousands)	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
<b>REVENUES:</b>					
Program revenue	\$ 13,091	\$ 13,318	\$ 660	\$ (227)	\$ 12,658
Other revenue	<u>118</u>	<u>99</u>	<u>7</u>	<u>19</u>	<u>92</u>
<b>TOTAL REVENUES</b>	<u>13,209</u>	<u>13,417</u>	<u>667</u>	<u>(208)</u>	<u>12,750</u>
<b>EXPENDITURES</b>	<u>837</u>	<u>728</u>	<u>633</u>	<u>109</u>	<u>95</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>12,372</u>	<u>12,689</u>	<u>34</u>	<u>(317)</u>	<u>12,655</u>
<b>FUND BALANCE – Beginning of year</b>	<u>12,985</u>	<u>296</u>	<u>262</u>	<u>12,689</u>	<u>34</u>
<b>FUND BALANCE – End of year</b>	<u>\$ 25,357</u>	<u>\$ 12,985</u>	<u>\$ 296</u>	<u>\$ 12,372</u>	<u>\$ 12,689</u>

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

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

Program revenue recorded in the GF in fiscal years 2011 and 2010 was \$13.1 million and \$13.3 million, respectively.

The amount of program revenue deposited in the GF was based on the projected administrative and arbitrage rebate expenditures. The amount deposited in the GF in 2009 was based only on administrative expenditures. Other revenue was comprised of interest income.

The following summarizes the changes in DSF balances for the years ended June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
REVENUES:					
Program revenue	\$ 17,481	\$ –	\$ 11,668	\$ 17,481	\$ (11,668)
Other revenue	42,670	113	16,214	42,557	(16,101)
TOTAL REVENUES	60,151	113	27,882	60,038	(27,769)
EXPENDITURES	88,223	88,601	90,147	(378)	(1,546)
OTHER FINANCING SOURCES (USES), NET	30,495	46,141	69,597	(15,646)	(23,456)
NET CHANGE IN FUND BALANCE	2,423	(42,347)	7,332	44,770	(49,679)
FUND BALANCE – Beginning of year	237,706	280,053	272,721	(42,347)	7,332
FUND BALANCE – End of year	\$ 240,129	\$ 237,706	\$ 280,053	\$ 2,423	\$ (42,347)

All program revenue, except that required to fund administrative and operating expenditures as previously discussed, was deposited into the DSF. In fiscal year 2011, \$17.5 million was deposited for debt service payments. In fiscal year 2010, there was no program revenue deposited in the DSF as all program revenue collected that year was deposited in the GF to fund HYIC’s arbitrage liability. In fiscal year 2009, program revenue deposited in the GF for debt service was \$11.6 million.

Other revenue for fiscal year 2011 was mainly comprised of ISPs. Other revenue for fiscal year 2010 was comprised only of interest income as HYIC’s resources were sufficient to cover debt service and therefore no ISPs were required to be

contributed by The City in fiscal year 2010. Other revenue in fiscal year 2009 included a \$15 million grant from The City, which was used to meet subsequent debt service payments.

The DSF expenditures decreased slightly in fiscal years 2011 and 2010 as bond interest expenditures were lower, as discussed previously.

The decrease in other financing sources (uses) net, in fiscal year 2011 compared to fiscal year 2010, and in fiscal year 2010 compared to fiscal year 2009, resulted from declines in interest collected on unspent bond proceeds which were transferred to the DSF from the CPF, to be used to pay debt service, in accordance with the terms of the Indenture.

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

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

The following summarizes the changes in CPF balances for the years ended June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
REVENUES:	\$ 2,508	\$ 19,748	\$ 56,409	\$ (17,240)	\$ (36,661)
EXPENDITURES:					
Project	347,996	324,262	353,259	23,734	(28,997)
TOTAL EXPENDITURES	347,996	324,262	353,259	23,734	(28,997)
OTHER FINANCING USES	(30,495)	(79,474)	(102,930)	48,979	23,456
NET CHANGE IN FUND BALANCE	(375,983)	(383,988)	(399,780)	8,005	15,792
FUND BALANCE – Beginning of year	598,353	982,341	1,382,121	(383,988)	(399,780)
FUND BALANCE – End of year	\$ 222,370	\$ 598,353	\$ 982,341	\$ (375,983)	\$ (383,988)

CPF revenues, comprised of investment earnings, decreased in fiscal year 2011 compared to fiscal year 2010, and in fiscal year 2010 compared to fiscal year 2009, because as bond proceeds were drawn down to pay project costs, the reduced holdings resulted in lower investment earnings.

Total project expenditures have increased by approximately \$24 million from 2010 to 2011. Although actual subway extension costs have decreased by approximately \$35 million as the tunneling work was completed in fiscal year 2011, all other project costs including acquisitions, condemnation counsel, leases, and public amenities increased by \$58 million

as the project prepares for it next phase of outfitting the subway system and constructing the park and boulevard sites.

Project expenditures in the CPF decreased in fiscal year 2010 compared to fiscal year 2009 as subway extension costs declined due to the major tunneling work having been completed.

Other financing uses during fiscal years 2011, 2010, and 2009 reflected the transfer of interest collected on unspent bond proceeds from the CPF to the DSF, to be used to pay debt service, in accordance with the terms of the Indenture.

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS –  
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

(continued)

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
<b>ASSETS:</b>					
Cash equivalents and investments	\$ 25,236	\$ 12,869	\$ 166	\$ 12,367	\$ 12,703
Other	151	151	170	–	(19)
<b>TOTAL ASSETS</b>	<u>\$ 25,387</u>	<u>\$ 13,020</u>	<u>\$ 336</u>	<u>\$ 12,367</u>	<u>\$ 12,684</u>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 30	\$ 35	\$ 40	\$ (5)	\$ (5)
<b>TOTAL LIABILITIES</b>	<u>30</u>	<u>35</u>	<u>40</u>	<u>(5)</u>	<u>(5)</u>
<b>FUND BALANCES:</b>					
Nonspendable prepaid expense	151	151	170	–	(19)
Assigned to arbitrage payment	24,964	12,365	–	12,599	12,365
Unassigned	242	469	126	(227)	343
<b>TOTAL FUND BALANCES</b>	<u>25,357</u>	<u>12,985</u>	<u>296</u>	<u>12,372</u>	<u>12,689</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 25,387</u>	<u>\$ 13,020</u>	<u>\$ 336</u>	<u>\$ 12,367</u>	<u>\$ 12,684</u>

GF total assets increased in fiscal year 2011 from 2010, and increased in fiscal year 2010 from 2009 as the majority of

program revenue deposited in the GF was constrained to pay HYIC’s arbitrage obligation, as previously discussed.

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS –  
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

(continued)

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	(restated) 2010	(restated) 2009	Change 2011 vs 2010	Change 2010 vs 2009
<b>ASSETS:</b>					
Restricted cash equivalents and investments	\$ 6,448	\$ 13,302	\$ 64,492	\$ (6,854)	\$ (51,190)
Transferable development rights	233,681	224,404	215,505	9,277	8,899
Other	–	–	56	–	(56)
<b>TOTAL ASSETS</b>	<u>\$ 240,129</u>	<u>\$ 237,706</u>	<u>\$ 280,053</u>	<u>\$ 2,423</u>	<u>\$ (42,347)</u>
<b>LIABILITIES:</b>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>
<b>FUND BALANCES:</b>					
Restricted	240,129	237,706	280,053	2,423	(42,347)
<b>TOTAL FUND BALANCES</b>	<u>240,129</u>	<u>237,706</u>	<u>280,053</u>	<u>2,423</u>	<u>(42,347)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 240,129</u>	<u>\$ 237,706</u>	<u>\$ 280,053</u>	<u>\$ 2,423</u>	<u>\$ (42,347)</u>

DSF total assets were slightly higher at June 30, 2011 compared to 2010, primarily because of the increase in the value of the TDRs. The increase in the value of the TDRs reflects the 2011 cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

DSF total assets were lower at June 30, 2010 compared to 2009 reflecting the declines in cash and investments. The

decrease in investment income on CPF cash and investments, which was transferred to the DSF to pay debt service, caused the DSF cash and investment holdings at year end to decline. This decline was partially offset by the appreciation of the TDRs, reflecting the cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

Management’s Discussion and Analysis (continued)

As of and for the years ended June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS –  
GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

(continued)

The following summarizes the CPF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

(amounts in thousands)	2011	2010	2009	Change 2011 vs 2010	Change 2010 vs 2009
<b>ASSETS:</b>					
Restricted cash equivalents and investments	\$ 289,956	\$ 664,145	\$ 1,102,159	\$ (374,189)	\$ (438,014)
<b>TOTAL ASSETS</b>	<u>\$ 289,956</u>	<u>\$ 664,145</u>	<u>\$ 1,102,159</u>	<u>\$ (374,189)</u>	<u>\$ (438,014)</u>
<b>LIABILITIES</b>					
	<u>\$ 67,586</u>	<u>\$ 65,792</u>	<u>\$ 119,818</u>	<u>\$ 1,794</u>	<u>\$ (54,026)</u>
<b>FUND BALANCES:</b>					
Restricted	<u>222,370</u>	<u>598,353</u>	<u>982,341</u>	<u>(375,983)</u>	<u>(383,988)</u>
<b>TOTAL FUND BALANCES</b>	<u>222,370</u>	<u>598,353</u>	<u>982,341</u>	<u>(375,983)</u>	<u>(383,988)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 289,956</u>	<u>\$ 664,145</u>	<u>\$ 1,102,159</u>	<u>\$ (374,189)</u>	<u>\$ ( 438,014)</u>

CPF cash equivalents and investments on hand at June 30, 2011, 2010, and 2009 represent unspent bond proceeds, and the decrease in fund balances between the year-ends reflects project expenditures made during the respective fiscal years, as discussed previously.

This financial report is designed to provide a general overview of HYIC’s finances. Questions concerning any of the

information in this report or requests for additional financial information should be directed to Raymond Orlando, Manager of Investor Relations, Hudson Yards Infrastructure Corporation, 75 Park Place, New York, NY 10007

\* \* \* \* \*

Statements of Net Assets (Deficit)

As of June 30, 2011 and 2010

(amounts in thousands)	2011	2010
<b>ASSETS:</b>		
Unrestricted cash equivalents	\$ 272	\$ 504
Restricted cash equivalents	227,419	91
Unrestricted investments	24,964	12,365
Restricted investments	68,985	677,356
Prepaid insurance	151	151
Transferable development rights	233,681	224,404
Unamortized bond issue costs	<u>26,166</u>	<u>26,914</u>
<b>Total assets</b>	<u>581,638</u>	<u>941,785</u>
<b>LIABILITIES:</b>		
Project costs payable	53,310	65,698
Accrued expenses	30	35
Payable to The City of New York	13,991	–
Payable to Hudson Yards Development Corporation	103	94
Payable to New York City Economic Development Corporation	182	–
Arbitrage rebate liability	13,936	15,355
Accrued bond interest payable	36,833	36,833
Contingent liabilities	60,407	60,327
Long-term debt:		
Portion due within one year	–	–
Portion due after one year	2,000,000	2,000,000
Unamortized bond premium	<u>89,985</u>	<u>92,556</u>
<b>Total liabilities</b>	<u>2,268,777</u>	<u>2,270,898</u>
<b>NET ASSETS (DEFICIT):</b>		
Restricted for capital projects	161,963	538,026
Unrestricted	<u>(1,849,102)</u>	<u>(1,867,139)</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u>\$ (1,687,139)</u>	<u>\$ (1,329,113)</u>

See notes to financial statements.

# Statements of Activities

For the years ended June 30, 2011 and 2010

(amounts in thousands)	2011	2010
<b>REVENUES:</b>		
District improvement bonus revenue	\$ 4,635	\$ –
Tax equivalency payment revenue	25,937	13,318
Interest support payment revenue	42,667	–
Investment income	<u>2,629</u>	<u>19,960</u>
<b>Total revenues</b>	<u>75,868</u>	<u>33,278</u>
<b>EXPENSES:</b>		
Project—subway extension	275,609	310,280
Project—land acquisition and public amenities	69,269	70,055
Project—transfer to Hudson Yards Development Corporation	3,198	4,254
Bond interest	85,652	86,030
Arbitrage rebate	(1,419)	1,430
Amortization of bond issuance costs	748	748
General and administrative	<u>837</u>	<u>728</u>
<b>Total expenses</b>	<u>433,894</u>	<u>473,525</u>
<b>CHANGE IN NET (DEFICIT)</b>	(358,026)	(440,247)
<b>NET (DEFICIT) – Beginning of year</b>	<u>(1,329,113)</u>	<u>(888,866)</u>
<b>NET (DEFICIT) – End of year</b>	<u>\$ (1,687,139)</u>	<u>\$ (1,329,113)</u>

See notes to financial statements.

# Governmental Funds Balance Sheet

As of June 30, 2011

(amounts in thousands)	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS:</b>				
Unrestricted cash equivalents	\$ 272	\$ –	\$ –	\$ 272
Restricted cash equivalents	–	6,448	220,971	227,419
Unrestricted investments	24,964	–	–	24,964
Restricted investments	–	–	68,985	68,985
Prepaid insurance	151	–	–	151
Transferable development rights	<u>–</u>	<u>233,681</u>	<u>–</u>	<u>233,681</u>
<b>Total assets</b>	<u>\$ 25,387</u>	<u>\$ 240,129</u>	<u>\$ 289,956</u>	<u>\$ 555,472</u>
<b>LIABILITIES:</b>				
Project costs payable	\$ –	\$ –	\$ 53,310	\$ 53,310
Accounts payable	30	–	–	30
Payable to The City of New York	–	–	13,991	13,991
Payable to Hudson Yards Development Corporation	–	–	103	103
Payable to New York City Economic Development Corporation	<u>–</u>	<u>–</u>	<u>182</u>	<u>182</u>
<b>Total liabilities</b>	<u>30</u>	<u>–</u>	<u>67,586</u>	<u>67,616</u>
<b>FUND BALANCES:</b>				
Nonspendable prepaid expense	151	–	–	151
Restricted for:				
Debt Service	–	240,129	–	240,129
Capital Projects	–	–	222,370	222,370
Assigned to arbitrage rebate payment	24,964	–	–	24,964
Unassigned	<u>242</u>	<u>–</u>	<u>–</u>	<u>242</u>
<b>Total fund balances</b>	<u>25,357</u>	<u>240,129</u>	<u>222,370</u>	<u>487,856</u>
<b>Total liabilities and fund balances</b>	<u>\$ 25,387</u>	<u>\$ 240,129</u>	<u>\$ 289,956</u>	<u>\$ 555,472</u>

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2010

(amounts in thousands)	(restated) General Fund	(restated) Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS:</b>				
Unrestricted cash equivalents	\$ 504	\$ –	\$ –	\$ 504
Restricted cash equivalents	–	1	90	91
Unrestricted investments	12,365	–	–	12,365
Restricted investments	–	13,301	664,055	677,356
Prepaid insurance	151	–	–	151
Transferable development rights	–	224,404	–	224,404
<b>Total assets</b>	<u>\$ 13,020</u>	<u>\$ 237,706</u>	<u>\$ 664,145</u>	<u>\$ 914,871</u>
<b>LIABILITIES:</b>				
Project costs payable	\$ –	\$ –	\$ 65,698	\$ 65,698
Accounts payable	35	–	–	35
Payable to Hudson Yards Development Corporation	–	–	94	94
<b>Total liabilities</b>	<u>35</u>	<u>–</u>	<u>65,792</u>	<u>65,827</u>
<b>FUND BALANCES:</b>				
Nonspendable prepaid expense	151	–	–	151
Restricted for:				
Debt Service	–	237,706	–	237,706
Capital Projects	–	–	598,353	598,353
Assigned to arbitrage rebate payment	12,365	–	–	12,365
Unassigned	469	–	–	469
<b>Total fund balances</b>	<u>12,985</u>	<u>237,706</u>	<u>598,353</u>	<u>849,044</u>
<b>Total liabilities and fund balances</b>	<u>\$ 13,020</u>	<u>\$ 237,706</u>	<u>\$ 664,145</u>	<u>\$ 914,871</u>

See notes to financial statements.

Reconciliations of the Governmental Funds Balance Sheets  
to the Statements of Net Assets (Deficit)

As of June 30, 2011 and 2010

(amounts in thousands)	2011	2010
<b>TOTAL FUND BALANCE – GOVERNMENTAL FUNDS</b>	\$ 487,856	\$ 849,044
Amounts reported for governmental activities in the statements of net assets are different because:		
Costs of bond issuance are reported as expenditures in the governmental funds financial statements. However, in the statements of net assets (deficit) , the costs of bond issuance are reported as capitalized assets and amortized over the life of the bonds.		
	26,166	26,914
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.		
	(89,985)	(92,556)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements, but are reported in the statements of net assets (deficit). Those liabilities are:		
Bonds payable	(2,000,000)	(2,000,000)
Accrued bond interest payable	(36,833)	(36,833)
Arbitrage rebate	(13,936)	(15,355)
Contingent liabilities	<u>(60,407)</u>	<u>(60,327)</u>
<b>NET (DEFICIT) – GOVERNMENTAL ACTIVITIES</b>	<u>\$ (1,687,139)</u>	<u>\$ (1,329,113)</u>

See notes to financial statements.

Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances  
For the year ended June 30, 2011

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
(amounts in thousands)				
<b>REVENUES:</b>				
District improvement bonus revenue	\$ —	\$ 4,635	\$ —	\$ 4,635
Tax equivalency payment revenue	13,091	12,846	—	25,937
Interest support payment revenue	—	42,667	—	42,667
Investment income	118	3	2,508	2,629
<b>Total revenues</b>	<u>13,209</u>	<u>60,151</u>	<u>2,508</u>	<u>75,868</u>
<b>EXPENDITURES:</b>				
Project—subway extension	—	—	275,609	275,609
Project—land acquisition and public amenities	—	—	69,189	69,189
Project—transfers to Hudson Yards Development Corporation	—	—	3,198	3,198
Bond Interest	—	88,223	—	88,223
General and administrative	837	—	—	837
<b>Total expenditures</b>	<u>837</u>	<u>88,223</u>	<u>347,996</u>	<u>437,056</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers (from capital projects fund) to debt service fund	—	30,495	(30,495)	—
<b>Total other financing sources (uses)</b>	<u>—</u>	<u>30,495</u>	<u>(30,495)</u>	<u>—</u>
<b>NET CHANGE IN FUND BALANCES</b>	12,372	2,423	(375,983)	(361,188)
<b>FUND BALANCES – Beginning of year</b>	<u>12,985</u>	<u>237,706</u>	<u>598,353</u>	<u>849,044</u>
<b>FUND BALANCES – End of year</b>	<u>\$ 25,357</u>	<u>\$ 240,129</u>	<u>\$ 222,370</u>	<u>\$ 487,856</u>

See notes to financial statements.

Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances  
For the year ended June 30, 2010

	(restated) General Fund	(restated) Debt Service Fund	Capital Projects Fund	Total Governmental Funds
(amounts in thousands)				
<b>REVENUES:</b>				
District improvement bonus revenue	\$ —	\$ —	\$ —	\$ —
Tax equivalency payment revenue	13,318	—	—	13,318
Investment income	99	113	19,748	19,960
<b>Total revenues</b>	<u>13,417</u>	<u>113</u>	<u>19,748</u>	<u>33,278</u>
<b>EXPENDITURES:</b>				
Project—subway extension	—	—	310,280	310,280
Project—land acquisition and public amenities	—	—	9,728	9,728
Project—transfers to Hudson Yards Development Corporation	—	—	4,254	4,254
Bond Interest	—	88,601	—	88,601
General and administrative	728	—	—	728
<b>Total expenditures</b>	<u>728</u>	<u>88,601</u>	<u>324,262</u>	<u>413,591</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers (from capital projects fund) to debt service fund	—	79,474	(79,474)	—
Other—transferable development rights installment purchase agreement	—	(33,333)	—	(33,333)
<b>Total other financing sources (uses)</b>	<u>—</u>	<u>46,141</u>	<u>(79,474)</u>	<u>(33,333)</u>
<b>NET CHANGE IN FUND BALANCES</b>	12,689	(42,347)	(383,988)	(413,646)
<b>FUND BALANCES – Beginning of year</b>	<u>296</u>	<u>280,053</u>	<u>982,341</u>	<u>1,262,690</u>
<b>FUND BALANCES – End of year</b>	<u>\$ 12,985</u>	<u>\$ 237,706</u>	<u>\$ 598,353</u>	<u>\$ 849,044</u>

See notes to financial statements.

Reconciliations of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities  
For the years ended June 30, 2011 and 2010

(amounts in thousands)	2011	2010
NET CHANGE FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	\$ (361,188)	\$ (413,646)
Amounts reported in the statements of activities are different because:		
The unpaid portion of installment purchases of assets held for re-sale provide current financial resources to governmental funds, but the unpaid purchase price increases liabilities on the statements of net assets (deficit).	–	33,333
Governmental funds report costs of debt issuance as expenditures. However, on the statements of activities, the cost of debt issuance is amortized over the life of the bonds.	(748)	(748)
Governmental funds report bond premiums as other financing sources upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	2,571	2,571
Arbitrage earnings rebatable to the Federal government are reported on the statements of activities on an accrual basis, however arbitrage expenditures are reported in governmental funds when the outlay of financial resources is due.	1,419	(1,430)
Contingent liabilities are reported on the statement of activities on the accrual basis, however contingent expenditures are reported in the governmental funds when the outlay of current financial resources is due.	(80)	(60,327)
CHANGE IN NET (DEFICIT) – GOVERNMENTAL ACTIVITIES	<u>\$ (358,026)</u>	<u>\$ (440,247)</u>

See notes to financial statements.

Notes to Financial Statements  
As of and for the years ended June 30, 2011 and 2010  
(amounts in thousands, except as noted)

1. ORGANIZATION

Hudson Yards Infrastructure Corporation (“HYIC”) is a local development corporation established by The City of New York (“The City”) under Article 14 of the Not-for-Profit Corporation Law of the State of New York. HYIC’s purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the “Project”). The HYIC does not engage in development directly, but finances development spearheaded by Hudson Yards Development Corporation (“HYDC”) and carried out by existing public entities. The Project is 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) design and construction of an extension of the No. 7 Subway from its current terminus at 7th Avenue and 41st Street to a new station at 11th Avenue and West 34th Street (the “Subway Extension”), (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 the first phase of a system of parks, public open spaces, and streets in the Project Area (“Public Amenities”) and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from The City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five members, all of whom are officials of The City. HYIC’s Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of The City and of another component unit of The City, for which HYIC pays a management fee and overhead based on its allocated share of personnel and overhead costs.

Although legally separate from The City, HYIC is an instrumentality of The City and, accordingly, is included in The City’s financial statements as a blended component unit, in accordance with the Governmental Accounting Standards Board (“GASB”) standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The government-wide financial statements of HYIC, which include the statements of net assets (deficit)and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of cash flows.

HYIC’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, except for principal and interest on bonds payable and estimated arbitrage rebate liability which are recognized when due.

HYIC uses three governmental funds for reporting its activities: a General Fund (“GF”), a Debt Service Fund (“DSF”) and a Capital Projects Fund (“CPF”). The DSF is used to account for the receipt and disbursement of resources – including Transferable Development Rights (see Note 5) – used to pay interest on and principal of long term debt. The CPF is used to account for the bond issuances and proceeds and for project expenditures. The GF is used to account for all financial resources not accounted for in the DSF or the CPF, generally those used or held for use for administrative expenditures and arbitrage rebate expenditures.

Notes to Financial Statements (continued)

As of and for the years ended June 30, 2011 and 2010 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

HYIC accounts for the activities in the GF in accordance with the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the “Indenture”).

Fund Balance

Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB Statement 54 (see following discussion on the implementation of the new standard).

The Board of Directors of HYIC (“Board”) constitutes HYIC’s highest level of decision-making authority. Resolutions adopted by the Board that 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.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of HYIC duly authorized under its bond indenture to direct the movement of such funds are accounted for and reported as assigned for such purpose, unless or until a subsequent authorized action by the same or another duly authorized officer, or by the Board, is taken which removes or changes the assignment.

When both restricted and unrestricted resources are available for use for a specific purpose, it is HYIC’s policy to 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, it is HYIC’s policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

Resources constrained for debt service or redemption in accordance with HYIC’s Indenture are classified as restricted on the statements of net assets (deficit) and the governmental funds balance sheets.

Capital Assets

HYIC will not be the owner of the Project assets that are constructed or acquired, as those assets become the property of The City. Therefore, HYIC reports no infrastructure assets or construction work in progress.

For fixed assets used in the operations of HYIC, HYIC’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 thousand. No such assets have been acquired or constructed.

Revenues

HYIC revenues include:

- 1) Interest Support Payments (“ISP”) to be made by The City under the terms of the Support and Development Agreement (“Agreement”) that obligates The City to pay to HYIC, subject to annual appropriation, ISP on up to \$3 billion of HYIC bonds issued prior to the Conversion Date (described below), for so long as such bonds are outstanding, in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds;
- 2) Payments in lieu of real estate taxes (“PILOT”) which have been assigned to HYIC under agreements with the New York City Industrial Development Agency (“IDA”), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others (“PILOT Agreements”);
- 3) Tax Equivalency Payments (“TEP”) to be made by The City under the terms of the Agreement that obligates The City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by The City on new development (including substantial rehabilitation of existing buildings) in the Project Area;
- 4) District Improvement Bonuses (“DIB”) paid by private developers in exchange for the right to create additional density in the Project Area;

Notes to Financial Statements (continued)

As of and for the years ended June 30, 2011 and 2010 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

- 5) Payments in lieu of the mortgage recording tax (“PILOMRT”) required to be made by private developers entering into PILOT Agreements; and
- 6) Interest earned on unspent bond proceeds, which is generally used for debt service.

The Conversion Date is the date on which HYIC certifies that, for each of the two preceding fiscal years,HYIC’s PILOT payments plus TEP revenues, less HYIC’s operating expenses, (“Net Recurring Revenues”) were not less than 125% of the maximum annual debt service on all then-outstanding senior bonds and not less than 105% of maximum annual debt service on all outstanding bonds. After the date on which bonds are first callable (February 15, 2017) and prior to the Conversion Date, all revenues received by HYIC in a fiscal year remaining after funding expenses and interest must be used to purchase or redeem senior bonds in advance of their maturity, except that, if, during such fiscal year, The City has made ISPs, then HYIC must first reimburse The City for such ISPs. Prior to the Conversion Date, HYIC is not obligated to make any payments of principal on its bonds prior to maturity unless and until HYIC receives revenues in amounts sufficient to make such payments. After the Conversion Date, HYIC must establish a schedule of sinking fund installments for all outstanding debt no later than June 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on bonds issued on December 21, 2006,HYIC will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue,together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or

accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, or within 60 days after retirement of the bonds.

During fiscal years 2011 and 2010, HYIC made no rebate payments, but has estimated its accrued liability to rebate excess earnings to be approximately \$13,936 and \$15,355 at year end, respectively. The annual arbitrage rebate expense and the liability at year end are reported in the government-wide financial statements, but are not reported in the governmental fund financial statements as the liability is not expected to be paid out of current resources. It will be reported as an expenditure of the governmental funds financial statements in the year it becomes payable to the Federal government.

Bond Premium and Issuance Costs

Bond premium and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the government-wide financial statements. The amounts of unamortized bond premium at June 30, 2011 and 2010 were \$89,985 and \$92,556, respectively, which were net of accumulated amortization of \$12,855 and \$10,284, respectively. The amounts of unamortized issuance costs at June 30, 2011 and 2010 were \$26,166 and \$26,914, respectively, which were net of accumulated amortization of \$3,738 and \$2,990, respectively.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires HYIC’s management to make estimates and assumptions in determining the reported amounts of 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.

Recent Accounting Pronouncements

As a Component Unit of The City, HYIC implements new GASB standards in the same fiscal year as they are implemented by The City. The following are discussions of the standards requiring

Notes to Financial Statements (continued)

As of and for the years ended June 30, 2011 and 2010 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

- implementation in the current year and standards which will or may impact HYIC in future years.
- In February 2009, GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (“GASB 54”), effective for periods beginning after June 15, 2010. In fiscal year 2011, HYIC implemented GASB 54. GASB 54 changed the terminology and classification of fund balances to reflect spending constraints on the reported resources. It also changed the definitions of governmental fund types. The Statement changes the display of fund balances in the governmental fund financial statements and requires that governments disclose certain fund balance classifications and policies in the notes to the financial statements. As a result of HYIC implementing GASB 54, it established a general fund to report its administrative expenses and restated prior period financial statements in accordance with the Statement. The impact of the implementation of GASB 54 reduced the beginning fiscal year 2010 DSF fund balance by \$296 thousand and increased the GF fund balance by the same amount. GASB 54 did not have any impact on HYIC’s reported levels of total governmental fund balances or net assets (deficit).
  - In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus* (“GASB 59”). The Statement clarifies the accounting for a number of financial instruments including allocated and unallocated insurance contracts. The Statement is effective for the financial statements beginning after June 15, 2010. GASB 59 does not have an impact on HYIC’s financial statements.
  - In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* (“GASB 60”). The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011, but is not expected to have an impact on HYIC financial statements.
  - 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”). The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The Statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on HYIC 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”). The Statement incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The Statement is effective for financial statement periods beginning after December 15, 2011. HYIC has not completed the process of evaluation GASB 62, but does not expect it to have an impact on its 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”). The Statement establishes two new reporting elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. The Statement is effective for financial statements for periods beginning after December 15, 2011. HYIC has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of HYIC’s statement of position and components thereof, with no overall financial impact.
  - In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* (“GASB 64”). The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty’s credit support provider. The Statement is effective for financial statements for periods beginning after June 15, 2011. HYIC has not completed the process of evaluating GASB 64, but does not expect it to have an impact on its financial statements.
- Prior year amounts have been reclassified to conform to current year presentation.

Notes to Financial Statements (continued)

As of and for the years ended June 30, 2011 and 2010 (amounts in thousands, except as noted)

3. CASH AND CASH EQUIVALENTS

As of June 30, 2011 and 2010, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of U.S. Treasury Money Market Funds and commercial paper maturing within 90 days, primarily restricted for capital projects. HYIC’s cash and cash equivalents consisted of the following deposits at June 30, 2011 and 2010:

	2011	2010
Cash	\$ –	\$ –
Cash Equivalents (See Note 4)	227,691	595
<b>Total Cash and Cash Equivalents</b>	<b>\$ 227,691</b>	<b>\$ 595</b>

4. INVESTMENTS

HYIC’s investments consisted of the following at June 30, 2011 and 2010:

	2011	2010
<b>UNRESTRICTED:</b>		
U.S. Treasury Money Market Funds	\$ 272	\$ 504
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	7,617	–
Federal Home Loan Mortgage Corporation medium term notes (maturing after one year)	17,347	12,365
<b>Total Unrestricted</b>	<b>25,236</b>	<b>12,869</b>
<b>RESTRICTED FOR DEBT SERVICE:</b>		
U.S. Treasury Money Market Funds	6,448	1
Federal National Mortgage Association discount notes (maturing within one year)	–	13,301
<b>Total Restricted for Debt Service</b>	<b>6,448</b>	<b>13,302</b>
<b>RESTRICTED FOR CAPITAL PROJECTS:</b>		
U.S. Treasury Money Market Funds	42,435	90
Commercial Paper (maturing within 90 days)	178,536	–
Repurchase agreements	–	664,055
Commercial Paper (maturing after 90 days)	68,985	–
<b>Total Restricted for Capital Projects</b>	<b>289,956</b>	<b>664,145</b>
Total Investments including cash equivalents	321,640	690,316
Less amounts reported as cash equivalents (See Note 3)	( 227,691)	(595)
<b>Total Investments</b>	<b>\$ 93,949</b>	<b>\$ 689,721</b>

Notes to Financial Statements (continued)

As of and for the years ended June 30, 2011 and 2010 (amounts in thousands, except as noted)

4. INVESTMENTS (continued)

HYIC’s management invests funds which are not immediately required for operations, debt service or capital project expenses. Each account of the HYIC is held pursuant to the Indenture and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture.

Unspent proceeds of HYIC’s Senior Revenue Bonds Fiscal 2007 Series A (the “Series 2007A Bonds”) were primarily invested in flexible repurchase agreements (“Repurchase Agreements”) which guarantee fixed rates of return (ranging from 4.635% to 4.835%) on the daily balances and permitted HYIC to with draw funds for project expenditures as needed, until the Repurchase Agreements expired on March 31, 2011. Securities underlying the Repurchase Agreements were limited to obligations of the United States of America with a maturity of ten years or less or to certain senior debt obligations of Government National Mortgage Association, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation rated “AAA” by S&P and “Aaa” by Moody’s, with a maturity of ten years or less. Underlying securities are held and monitored by a third-party custodian as HYIC’s agent and must have a market value of at least 104% of their cost.

Investments are reported at fair value as of the financial statement date. All investments are registered and are held by HYIC’s agent in HYIC’s name.

Credit Risk

All investments held by HYIC at June 30, 2011 and 2010 are obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, shares of money market funds, and are rated “AAA” or “A-1+” by S&P and “Aaa” or “P-1” by Moody’s, or commercial paper and are rated in the highest category by at least two rating agencies.

Interest Rate Risk

HYIC’s short term maturities are subject to minimal risk of fair value declines due to changes in market interest rates. Investments with longer terms are expected to be held until maturity thereby limiting the exposure from rising interest rates.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of HYIC’s investments in a single issuer (5% or more). HYIC’s investment policy places no limits, except for securities, on the amount HYIC may invest in any one issuer of eligible investments as defined in the Indenture. As of June 30, 2011, HYIC’s investments are in eligible government obligations and commercial paper. These are 23% and 77% of HYIC total investments, respectively.

5. TRANSFERABLE DEVELOPMENT RIGHTS

HYIC acquired a 50% interest in Eastern Rail Yards Transferable Development Rights (“TDRs”) for the purpose of resale, under an agreement among The City, the MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company (“TDR Agreement”). The purchase by developers of TDRs will permit the construction of buildings of larger size than would otherwise be permissible as of-right under applicable zoning law. Proceeds received by HYIC for sales of the TDRs, up to the amount of HYIC’s investment (including the \$200 million total purchase price and interest costs thereon) will be used by HYIC to support its operations and service its debt.

Under the terms of the TDR Agreement, HYIC made the initial installment payment of \$100,000 in fiscal year 2007, and was required to make three more annual payments of \$33,333 in September of 2007, 2008 and 2009 for this interest of which all the payments were made. The full value of the TDRs, including the full purchase price and HYIC’s cost of funds is reflected as an asset in the governmental funds balance sheets and in the statements of net assets (deficits).

Notes to Financial Statements (continued)

As of and for the years ended June 30, 2011 and 2010 (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES

Changes in Long-term Liabilities

On December 21, 2006, HYIC issued the Series 2007A Bonds in the amount of \$2,000,000. They are the first bonds issued by HYIC and the only bonds issued and outstanding as of June 30, 2011 and 2010. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds.

Interest on the Series 2007A Bonds is payable semiannually on February 15 and August 15. Payments of principal on the Series 2007A Bonds will be made by HYIC from revenues and TDRs sale proceeds received as a result of development in the Hudson Yards Financing District. Prior to the Conversion Date (discussed in Note 2), HYIC is not obligated to make

any payments of principal on the Series 2007A Bonds prior to maturity unless and until – and to the extent that – HYIC receives revenues and TDRs sale proceeds in amounts sufficient to make such payments. After the first call date (February 15,2017) for the Series 2007A Bonds and prior to the Conversion Date, all revenues remaining after funding expenses and interest must be used to purchase or redeem Series 2007A Bonds (except that, if The City has made ISPs during such fiscal year, then HYIC must first reimburse The City for such ISPs). The Indenture specifies that a schedule of sinking fund installments must be established for the Series 2007A Bonds no later than the June 30<sup>th</sup> following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.0%.

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2011 follows:

	Balance June 30, 2010	Period Ended June 30, 2011		Balance June 30, 2011	Due within One Year
		Additions	Deletions		
SERIES					
Fiscal 2007 Series A	\$ 2,000,000	\$ —	\$ —	\$ 2,000,000	\$ —
Total Long-term Debt	\$ 2,000,000	\$ —	\$ —	\$ 2,000,000	\$ —

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2010 follows:

	Balance June 30, 2009	Period Ended June 30, 2010		Balance June 30, 2010	Due within One Year
		Additions	Deletions		
<b>SERIES</b>					
Fiscal 2007 Series A	\$ 2,000,000	\$ –	\$ –	\$ 2,000,000	\$ –
Total bonds payable	\$ 2,000,000	\$ –	\$ –	\$ 2,000,000	\$ –
Due to MTA for TDR	33,333	–	33,333	–	–
<b>Total changes in Long-term Debt</b>	<b>\$ 2,033,333</b>	<b>\$ –</b>	<b>\$ 33,333</b>	<b>\$ 2,000,000</b>	<b>\$ –</b>

6. LONG-TERM LIABILITIES (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2011, are as follows:

Years Ended June 30,	Principal	Interest	Total
2012	\$ —	\$ 97,500	\$ 97,500
2013	—	97,500	97,500
2014	—	97,500	97,500
2015	—	97,500	97,500
2016	—	97,500	97,500
2017 to 2021	—	487,500	487,500
2022 to 2026	—	487,500	487,500
2027 to 2031	—	487,500	487,500
2032 to 2036	—	487,500	487,500
2037 to 2041	—	487,500	487,500
2042 to 2047	2,000,000	585,000	2,585,500
Total	\$ 2,000,000	\$ 3,510,000	\$ 5,510,000

Claims and Litigation

As of June 30, 2011 and 2010, The City was a defendant in several condemnation proceedings pertaining to the Hudson Yards Project. The potential future liability attributable to claims asserted in such condemnation proceedings,

is estimated to be \$60 million, which is HYIC's best estimate as of the end of fiscal year 2011, based upon available information. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

\* \* \* \* \*

# Directors & Officers

DIRECTORS

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OMB Director

**John C. Liu**  
City Comptroller

**Christine Quinn**  
City Council Speaker

**Robert K. Steel**  
Deputy Mayor for Economic  
Development

**Cas Holloway**  
Deputy Mayor for Operations

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**Robert Balducci**  
Deputy Comptroller

**Kemraj Narine**  
Assistant Comptroller

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An aerial photograph of a city block, likely in New York City, showing a dense grid of buildings and streets. A magenta line is drawn across the image, starting from the bottom left, curving upwards and to the right, and then continuing horizontally across the top right. A magenta circle with the white number '7' is positioned on the line, near the bottom left corner of the image.

7

HYIC

Hudson Yards Infrastructure Corporation

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