

2012

ANNUAL REPORT



Hudson Yards Infrastructure Corporation
A Component Unit of The City of New York

HYIC

TABLE OF CONTENTS

2	LETTER FROM THE PRESIDENT
5	INDEPENDENT AUDITORS' REPORT
6	MANAGEMENT'S DISCUSSION AND ANALYSIS
	BASIC FINANCIAL STATEMENTS
	Government-wide Financial Statements:
16	Statements of Net Assets (Deficit)
17	Statements of Activities
	Governmental Funds Financial Statements:
18-19	Governmental Funds Balance Sheets
20	Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Assets (Deficit)
21-22	Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances
23	Reconciliations of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities
24	NOTES TO FINANCIAL STATEMENTS

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, 2012. 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-.

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.

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 Railway 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.

(continued on next page)

LETTER FROM THE PRESIDENT (continued)

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 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.

Construction is being performed by the MTA and is on schedule. As of December 2012, the tunnels, three of four ventilation buildings, and the station's main passageways have already been constructed. Installation of tracks and electrical and operational testing make up the majority of the remaining work.

Additionally, design and demolition work for the HYIC-funded Hudson Park and Boulevard, a four-acre system of parks and greenways through the Project Area, has been completed. Construction of the subsurface infrastructure began earlier this year and is proceeding on schedule. Construction work on the Hudson River Park and Boulevard is being performed by HYDC.

Very truly yours,

Alan Anders
President

FINANCIAL

STATEMENTS



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 years ended June 30, 2012 and 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 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 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 audits provide 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, 2012 and 2011 and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

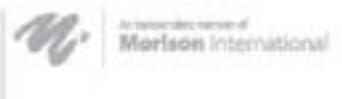
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink, appearing to read 'Marks Paneth & Shron LLP'.

New York, NY
September 28, 2012

622 THIRD AVENUE
NEW YORK, NY 10017-6701
P. 212.303.8800 F. 212.370.3759
WWW.MARKSPANETH.COM

MANHATTAN
LONG ISLAND
WESTCHESTER
CAYMAN ISLANDS



MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the years ended June 30, 2012 and 2011

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, 2012 and 2011 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 four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

ORGANIZATIONAL OVERVIEW (continued)

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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS

(amounts in thousands, except as noted)

On December 21, 2006 HYIC issued its Fiscal 2007 Series A Senior Revenue Bonds ("FY07 Bonds") in the amount of \$2 billion, to partially finance the Project. The FY07 Bonds are term bonds with semiannual interest payment dates beginning on August 15, 2007 and maturing on February 15, 2047. On October 26, 2011, HYIC issued its Fiscal 2012 Series A Senior Revenue Bonds ("FY12 Bonds") in the amount of \$1 billion, to finance the remaining portion of the project. The FY12 Bonds are term bonds with semiannual interest payments beginning on February 15, 2012 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.

The following summarizes the activities of HYIC for the years ended June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Revenues:					
Program revenue	\$ 30,630	\$ 30,572	\$ 13,318	\$ 58	\$ 17,254
Other revenue	236,317	45,296	19,960	191,021	25,336
Total revenues	<u>266,947</u>	<u>75,868</u>	<u>33,278</u>	<u>191,079</u>	<u>42,590</u>
Expenses:					
Project	279,678	348,076	384,589	(68,398)	(36,513)
Bond Interest	122,623	85,652	86,030	36,971	(378)
Arbitrage rebate	(5,111)	(1,419)	1,430	(3,692)	(2,849)
Other	1,644	1,585	1,476	59	109
Total expenses	<u>398,834</u>	<u>433,894</u>	<u>473,525</u>	<u>(35,060)</u>	<u>(39,631)</u>
Change in net assets	(131,887)	(358,026)	(440,247)	226,139	82,221
Net (deficit) - beginning of year	<u>(1,687,139)</u>	<u>(1,329,113)</u>	<u>(888,866)</u>	<u>(358,026)</u>	<u>(440,247)</u>
Net (deficit) - end of year	<u>\$ (1,819,026)</u>	<u>\$ (1,687,139)</u>	<u>\$ (1,329,113)</u>	<u>\$ (131,887)</u>	<u>\$ (358,026)</u>

For the fiscal years ended June 30, 2012 and 2011, program revenue was comprised of DIB and TEP, compared to fiscal year 2010 where program revenue was only comprised of TEP. HYIC recognized approximately \$30.6 million of program revenue in fiscal year 2012 and fiscal year 2011. The increase of \$17.3 million in fiscal year 2011 when compared to fiscal year 2010 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 while it did not collect DIB in fiscal year 2010.

Other revenue in fiscal year 2012 was comprised of ISPs, investment earnings, and a grant from The City. The increase of \$191 million in fiscal year 2012 was primarily due to a \$155 million grant from The City and \$36 million more in ISPs to meet HYIC's debt service requirements. The grant from The City will be used to pay HYIC's debt service and is expected to reduce the amount of future ISP required from The City.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued) (amounts in thousands, except as noted)

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.

Project expenses incurred during fiscal year 2012 were approximately \$279.7 million compared to fiscal year 2011 when HYIC incurred approximately \$348.1 million. Subway extension expenses increased by approximately \$40 million as tunnel outfitting increased. The subway project increase was more than offset by the decrease of \$108 million in land acquisition and public amenities cost as a determination in favor of HYIC was issued by the New York Supreme Court eliminated a previously accrued contingent liability in the amount of \$60.4 million for additional condemnation costs.

Project expenses incurred during fiscal year 2011 were approximately \$348.1 million compared to fiscal year 2010 when HYIC incurred approximately \$384.6 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.

Bond interest expense increased in fiscal year 2012 due to the issuance of bonds in October 2011.

The decrease in investment earnings caused a decrease in arbitrage rebate expense in fiscal year 2012 and fiscal year 2011. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued) (amounts in thousands, except as noted)

The following summarizes HYIC's assets, liabilities and net assets (deficit) as of June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Assets:					
Non-capital	\$ 1,430,691	\$ 581,638	\$ 941,785	\$ 849,053	\$ (360,147)
Total assets	<u>1,430,691</u>	<u>581,638</u>	<u>941,785</u>	<u>849,053</u>	<u>(360,147)</u>
Liabilities:					
Current liabilities	130,783	118,385	102,660	12,398	15,725
Long-term liabilities	<u>3,118,934</u>	<u>2,150,392</u>	<u>2,168,238</u>	<u>968,542</u>	<u>(17,846)</u>
Total liabilities	<u>3,249,717</u>	<u>2,268,777</u>	<u>2,270,898</u>	<u>980,940</u>	<u>(2,121)</u>
Net assets (deficit):					
Restricted	906,497	161,963	538,026	744,534	(376,063)
Unrestricted	<u>(2,725,523)</u>	<u>(1,849,102)</u>	<u>(1,867,139)</u>	<u>(876,421)</u>	<u>18,037</u>
Total net (deficit)	<u>\$ (1,819,026)</u>	<u>\$ (1,687,139)</u>	<u>\$ (1,329,113)</u>	<u>\$ (131,887)</u>	<u>\$ (358,026)</u>

Total assets at June 30, 2012 were greater than 2011 due to the deposit of proceeds from the issuance of \$1 billion of bonds. Total assets at June 30, 2011 were lower than 2010, as a result of bond proceeds being drawn-down to pay the Project costs.

Current liabilities increased by \$12.3 million at the end of fiscal year 2012 primarily because of increased accrued bond interest expense from the issuance of the 2012 Series A Bonds.

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 was 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.

Long-term liabilities increased substantially in fiscal year 2012 because of the issuance of \$1 billion of bonds, as previously discussed.

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.

The large negative unrestricted and total net assets (deficit) balances at June 30, 2012, 2011 and 2010 were primarily due to the issuance of bonds that will be repaid from future revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

(amounts in thousands, except as noted)

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 in 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, 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Revenues:					
Program revenue	\$ 1,068	\$ 13,091	\$ 13,318	\$ (12,023)	\$ (227)
Other revenue	31	118	99	(87)	19
Total revenues	<u>1,099</u>	<u>13,209</u>	<u>13,417</u>	<u>(12,110)</u>	<u>(208)</u>
Expenditures	<u>9,519</u>	<u>837</u>	<u>728</u>	<u>8,682</u>	<u>109</u>
Other financing uses	<u>(252)</u>	<u>-</u>	<u>-</u>	<u>(252)</u>	<u>-</u>
Net change in fund balance	<u>(8,672)</u>	<u>12,372</u>	<u>12,689</u>	<u>(21,044)</u>	<u>(317)</u>
Fund balance - beginning of year	<u>25,357</u>	<u>12,985</u>	<u>296</u>	<u>12,372</u>	<u>12,689</u>
Fund balance - end of year	<u>\$ 16,685</u>	<u>\$ 25,357</u>	<u>\$ 12,985</u>	<u>\$ (8,672)</u>	<u>\$ 12,372</u>

Program revenue deposited in the GF during fiscal years 2012 was \$1.0 million and program revenue deposits during fiscal years 2011 and 2010 were \$13.1 and 13.3 million, respectively. The amount of program revenue deposited in the GF was based on the projected administrative and arbitrage rebate expenditures. Other revenue was comprised of interest income. The increase in expenditures during fiscal year 2012 was entirely due to an \$8.8 million arbitrage payment to the United States Treasury.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued) (amounts in thousands, except as noted)

The following summarizes the changes in the DSF balances for the years ended June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Revenues:					
Program revenue	\$ 29,562	\$ 17,481	\$ -	\$ 12,081	\$ 17,481
Other revenue	234,939	42,670	113	192,269	42,557
Total revenues	<u>264,501</u>	<u>60,151</u>	<u>113</u>	<u>204,350</u>	<u>60,038</u>
Expenditures	<u>105,065</u>	<u>88,223</u>	<u>88,601</u>	<u>16,842</u>	<u>(378)</u>
Other financing uses	<u>1,261</u>	<u>30,495</u>	<u>46,141</u>	<u>(29,234)</u>	<u>(15,646)</u>
Net change in fund balance	160,697	2,423	(42,347)	158,274	44,770
Fund balance - beginning of year	<u>240,129</u>	<u>237,706</u>	<u>280,053</u>	<u>2,423</u>	<u>(42,347)</u>
Fund balance - end of year	<u>\$ 400,826</u>	<u>\$ 240,129</u>	<u>\$ 237,706</u>	<u>\$ 160,697</u>	<u>\$ 2,423</u>

All program revenue, except that required to pay administrative and operating expenditures was deposited into the DSF, as previously discussed. In fiscal years 2012 and 2011, \$29.6 million and \$17.5 million were deposited for debt service payments, respectively. 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.

The large increase of other revenue in fiscal year 2012 was primarily due to a \$155 grant from The City and \$36 million more in ISP to meet HYIC's debt service requirements, as previously discussed. The increase of other revenue in fiscal year 2011 was mainly comprised of ISPs needed to cover debt service. 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.

The DSF expenditures increased in fiscal year 2012 due to the issuance of the 2012 Series A Bonds.

The decrease in other financing sources in fiscal year 2012 was primarily due to the expiration of high interest rate bearing flexible repurchase agreements. The decrease in fiscal year 2011 compared to fiscal year 2010 resulted from declines in interest collected on a declining balance of unspent bond proceeds. The interest was 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, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued) (amounts in thousands, except as noted)

The following summarizes the changes in the CPF balances for the years ended June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Revenues	\$ 1,347	\$ 2,508	\$ 19,748	\$ (1,161)	\$ (17,240)
Expenditures:					
Project/Cost of Issuance	345,661	347,996	324,262	(2,335)	23,734
Total expenditures	345,661	347,996	324,262	(2,335)	23,734
Other financing sources (uses) net	1,029,918	(30,495)	(79,474)	1,060,413	48,979
Net change in fund balance	685,604	(375,983)	(383,988)	1,061,587	8,005
Fund balance - beginning of year	222,370	598,353	982,341	(375,983)	(383,988)
Fund balance - end of year	<u>\$ 907,974</u>	<u>\$ 222,370</u>	<u>\$ 598,353</u>	<u>\$ 685,604</u>	<u>\$ (375,983)</u>

The CPF revenues comprised of investment earnings, decreased in fiscal year 2012 compared to fiscal year 2011 due to the expiration of high interest rate bearing flexible repurchase agreements. The decrease in fiscal year 2011 compared to fiscal year 2010 was due to the drawing down of bond proceeds to pay project costs; the reduced holdings resulted in lower investment earnings.

Total project expenditures increased by approximately \$23.7 million from 2010 to 2011. Although actual subway extension costs 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 its next phase of outfitting the subway system and constructing the park and boulevard sites.

Other financing sources (uses) net, during fiscal year 2012 primarily reflected the bond proceeds from the issuance of 2012 Series A Bonds. Other financing uses during fiscal years 2011 and 2010 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, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued) (amounts in thousands, except as noted)

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Assets:					
Cash equivalents & investments	\$ 16,562	\$ 25,236	\$ 12,869	\$ (8,674)	\$ 12,367
Prepaid Insurance	151	151	151	-	-
Total assets	<u>\$ 16,713</u>	<u>\$ 25,387</u>	<u>\$ 13,020</u>	<u>\$ (8,674)</u>	<u>\$ 12,367</u>
Liabilities:					
Accounts Payable	\$ 28	\$ 30	\$ 35	\$ (2)	\$ (5)
Total liabilities	<u>28</u>	<u>30</u>	<u>35</u>	<u>(2)</u>	<u>(5)</u>
Fund balances:					
Nonspendable prepaid expense	151	151	151	-	-
Assigned to arbitrage payment	16,365	24,964	12,365	(8,599)	12,599
Unassigned	169	242	469	(73)	(227)
Total fund balances	<u>16,685</u>	<u>25,357</u>	<u>12,985</u>	<u>(8,672)</u>	<u>12,372</u>
Total liabilities and fund balances	<u>\$ 16,713</u>	<u>\$ 25,387</u>	<u>\$ 13,020</u>	<u>\$ (8,674)</u>	<u>\$ 12,367</u>

The GF total assets decreased by \$8.7 in fiscal year 2012, as an arbitrage rebate payment of \$8.8 was made to the United States Treasury. The GF total assets increased in fiscal year 2011 from 2010 as the majority of program revenue deposited in the GF was constrained to pay HYIC's arbitrage obligation, as previously discussed.

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>(restated) 2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Assets:					
Restricted cash equivalents and investments	\$ 157,679	\$ 6,448	\$ 13,302	\$ 151,231	\$ (6,854)
Transferable development rights	242,958	233,681	224,404	9,277	9,277
Due from Capital Projects Funds	189	-	-	189	-
Total assets	<u>\$ 400,826</u>	<u>\$ 240,129</u>	<u>\$ 237,706</u>	<u>\$ 160,697</u>	<u>\$ 2,423</u>
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:					
Restricted	400,826	240,129	237,706	160,697	2,423
Total fund balances	<u>400,826</u>	<u>240,129</u>	<u>237,706</u>	<u>160,697</u>	<u>2,423</u>
Total liabilities and fund balances	<u>\$ 400,826</u>	<u>\$ 240,129</u>	<u>\$ 237,706</u>	<u>\$ 160,697</u>	<u>\$ 2,423</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of and for the years ended June 30, 2012 and 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued) (amounts in thousands, except as noted)

The DSF restricted cash equivalents and investments were higher in fiscal year 2012 because of a \$155 million grant from The City, as previously discussed.

The TDRs were higher at June 30, 2012 and 2011, because of the increase in the value of the TDRs. The increase in the value of the TDRs reflects the cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

The following summarizes the CPF assets, liabilities, and fund balances as of June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Change 2012 vs 2011</u>	<u>Change 2011 vs 2010</u>
Assets:					
Restricted cash equivalents and investments	\$ 981,071	\$ 289,956	\$ 664,145	\$ 691,115	\$ (374,189)
Total assets	<u>\$ 981,071</u>	<u>\$ 289,956</u>	<u>\$ 664,145</u>	<u>\$ 691,115</u>	<u>\$ (374,189)</u>
Liabilities:					
Project	\$ 72,908	\$ 67,586	\$ 65,792	\$ 5,322	\$ 1,794
Due to Debt Service Fund	189	-	-	189	-
Total liabilities	<u>73,097</u>	<u>67,586</u>	<u>65,792</u>	<u>5,511</u>	<u>1,794</u>
Fund balances:					
Restricted	907,974	222,370	598,353	685,604	(375,983)
Total fund balances	<u>907,974</u>	<u>222,370</u>	<u>598,353</u>	<u>685,604</u>	<u>(375,983)</u>
Total liabilities and fund balances	<u>\$ 981,071</u>	<u>\$ 289,956</u>	<u>\$ 664,145</u>	<u>\$ 691,115</u>	<u>\$ (374,189)</u>

CPF assets on hand at June 30, 2012, 2011, and 2010 represent unspent bond proceeds. The increase in fund balances in fiscal year 2012 was due to bond proceeds from the issuance of 2012 Series A bonds and the decrease in fund balances in fiscal year 2011 reflected 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, 255 Greenwich Street, New York, NY 10007

STATEMENTS OF NET ASSETS (DEFICIT)

As of June 30, 2012 and 2011 (amounts in thousands)

	<u>2012</u>	<u>2011</u>
Assets:		
Unrestricted cash equivalents	\$ 197	\$ 272
Restricted cash equivalents	217,506	227,419
Unrestricted investments	16,365	24,964
Restricted investments	921,243	68,985
Interest receivable	1	-
Prepaid insurance	151	151
Transferable development rights	242,958	233,681
Unamortized bond issue costs	32,270	26,166
Total assets	<u>1,430,691</u>	<u>581,638</u>
Liabilities:		
Project costs payable	57,630	53,310
Accrued expenses	28	30
Payable to The City of New York	15,180	13,991
Payable to Hudson Yards Development Corporation	51	103
Payable to New York City Economic Development Corporation	47	182
Arbitrage rebate liability	-	13,936
Accrued bond interest payable	57,847	36,833
Contingent liabilities	1,477	60,407
Long term debt:		
Portion due within one year	-	-
Portion due after one year	3,000,000	2,000,000
Unamortized bond premium	117,457	89,985
Total liabilities	<u>3,249,717</u>	<u>2,268,777</u>
Net Assets (deficit):		
Restricted for capital projects	906,497	161,963
Unrestricted	(2,725,523)	(1,849,102)
Total net assets (deficits)	<u>\$ (1,819,026)</u>	<u>\$ (1,687,139)</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2012 and 2011 (amounts in thousands)

	<u>2012</u>	<u>2011</u>
Revenues:		
District improvement bonus revenue	\$ 2,951	\$ 4,635
Tax equivalency payment revenue	27,679	25,937
Grant from The City of New York	155,595	-
Interest support payment revenue	79,347	42,667
Investment income	1,375	2,629
Total revenues	<u>266,947</u>	<u>75,868</u>
Expenses:		
Project - subway extension	316,439	275,609
Project - land acquisition and public amenities	(39,787)	69,269
Project - transfer to Hudson Yards Development Corporation	3,026	3,198
Bond interest	122,623	85,652
Arbitrage rebate	(5,111)	(1,419)
Amortization of bond issuance costs	949	748
General and administrative	695	837
Total expenses	<u>398,834</u>	<u>433,894</u>
Change in Net Assets	(131,887)	(358,026)
Net (deficit) - beginning of year	<u>(1,687,139)</u>	<u>(1,329,113)</u>
Net (deficit) - end of year	<u>\$ (1,819,026)</u>	<u>\$ (1,687,139)</u>

See notes to financial statements.

GOVERNMENTAL FUNDS BALANCE SHEET

As of June 30, 2012 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets:				
Unrestricted cash equivalents	\$ 197	\$ -	\$ -	\$ 197
Restricted cash equivalents	-	80,307	137,199	217,506
Unrestricted investments	16,365	-	-	16,365
Restricted investments	-	77,372	843,871	921,243
Interest receivable	-	-	1	1
Due from Capital Projects Fund	-	189	-	189
Prepaid insurance	151	-	-	151
Transferable development rights	-	242,958	-	242,958
Total assets	\$ 16,713	\$ 400,826	\$ 981,071	\$ 1,398,610
Liabilities:				
Project costs payable	\$ -	\$ -	\$ 57,630	\$ 57,630
Accounts payable	28	-	-	28
Due to Debt Service Fund	-	-	189	189
Payable to The City of New York	-	-	15,180	15,180
Payable to Hudson Yards Development Corporation	-	-	51	51
Payable to New York City Economic Development Corporation	-	-	47	47
Total liabilities	28	-	73,097	73,125
Fund balances:				
Nonspendable prepaid expense	151	-	-	151
Restricted for:				
Debt Service	-	400,826	-	400,826
Capital Projects	-	-	907,974	907,974
Assigned to arbitrage rebate payment	16,365	-	-	16,365
Unassigned	169	-	-	169
Total fund balances	16,685	400,826	907,974	1,325,485
Total liabilities and fund balances	\$ 16,713	\$ 400,826	\$ 981,071	\$ 1,398,610

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
Assets:				
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
Interest receivable	-	-	-	-
Due from Capital Projects Fund	-	-	-	-
Prepaid insurance	151	-	-	151
Transferable development rights	-	233,681	-	233,681
Total assets	\$ 25,387	\$ 240,129	\$ 289,956	\$ 555,472
Liabilities:				
Project costs payable	\$ -	\$ -	\$ 53,310	\$ 53,310
Accounts payable	30	-	-	30
Due to Debt Service Fund	-	-	-	-
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	-	-	182	182
Total liabilities	30	-	67,586	67,616
Fund balances:				
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	242	-	-	242
Total fund balances	25,357	240,129	222,370	487,856
Total liabilities and fund balances	\$ 25,387	\$ 240,129	\$ 289,956	\$ 555,472

See notes to financial statements.

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)

As of June 30, 2012 and 2011 (amounts in thousands)

	<u>2012</u>	<u>2011</u>
Total fund balances - governmental funds	\$ 1,325,485	\$ 487,856
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.	32,270	26,166
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.	(117,457)	(89,985)
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	(3,000,000)	(2,000,000)
Accrued bond interest payable	(57,847)	(36,833)
Arbitrage rebate	-	(13,936)
Contingent liabilities	(1,477)	(60,407)
Net (deficit) - governmental activities	<u>\$ (1,819,026)</u>	<u>\$ (1,687,139)</u>

See notes to financial statements.

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the year ended June 30, 2012 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
District improvement bonus revenue	\$ -	\$ 2,951	\$ -	\$ 2,951
Tax equivalency payment revenue	1,068	26,611	-	27,679
Grant from The City of New York	-	155,595	-	155,595
Interest support payment revenue	-	79,347	-	79,347
Investment income	31	(3)	1,347	1,375
Total revenues	<u>1,099</u>	<u>264,501</u>	<u>1,347</u>	<u>266,947</u>
Expenditures:				
Project - subway extension	-	-	316,439	316,439
Project - land acquisition and public amenities	-	-	19,143	19,143
Project - transfers to Hudson Yards Development Corporation	-	-	3,026	3,026
Bond interest	-	105,065	-	105,065
General and administrative	9,519	-	-	9,519
Costs of bond issuance	-	-	7,053	7,053
Total expenditures	<u>9,519</u>	<u>105,065</u>	<u>345,661</u>	<u>460,245</u>
Other financing sources (uses):				
Principal Amount of Bonds Issued	-	-	1,000,000	1,000,000
Bond Premium	-	-	30,927	30,927
Transfers (from Capital Projects Fund) to Debt Service Fund	-	1,099	(1,009)	-
Transfer (from General Fund) to Debt Service Fund	(252)	252	-	-
Total other financing sources (uses)	<u>(252)</u>	<u>1,261</u>	<u>1,029,918</u>	<u>1,030,927</u>
Net change in fund balances	(8,672)	160,697	685,604	837,629
Fund balances - beginning of year	<u>25,357</u>	<u>240,129</u>	<u>222,370</u>	<u>487,856</u>
Fund balances - end of year	<u>\$ 16,685</u>	<u>\$ 400,826</u>	<u>\$ 907,974</u>	<u>\$ 1,325,485</u>

See notes to financial statements.

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the year ended June 30, 2011 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
District improvement bonus revenue	\$ -	\$ 4,635	\$ -	\$ 4,635
Tax equivalency payment revenue	13,091	12,846	-	25,937
Grant from The City of New York	-	-	-	-
Interest support payment revenue	-	42,667	-	42,667
Investment income	118	3	2,508	2,629
Total revenues	<u>13,209</u>	<u>60,151</u>	<u>2,508</u>	<u>75,868</u>
Expenditures:				
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
Total expenditures	<u>837</u>	<u>88,223</u>	<u>347,996</u>	<u>437,056</u>
Other financing sources (uses):				
Transfers (from Capital Projects Fund) to Debt Service Fund	-	30,495	(30,495)	-
Total other financing sources (uses)	<u>-</u>	<u>30,495</u>	<u>(30,495)</u>	<u>-</u>
Net change in fund balances	12,372	2,423	(375,983)	(361,188)
Fund balances - beginning of year	<u>12,985</u>	<u>237,706</u>	<u>598,353</u>	<u>849,044</u>
Fund balances - end of year	<u>\$ 25,357</u>	<u>\$ 240,129</u>	<u>\$ 222,370</u>	<u>\$ 487,856</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, 2012 and 2011 (amounts in thousands)

	2012	2011
Net change fund balances - total governmental funds	\$ 837,629	\$ (361,188)
Amount reported in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities on the statement of net assets.	(1,000,000)	-
Governmental funds report bond premiums as other financing sources. However, on the statement of activities, premiums are amortized over the life of the debt.	(30,927)	-
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	6,105	(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.	(17,559)	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.	13,935	1,419
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.	58,930	(80)
Change in net (deficit) - governmental activities	\$ (131,887)	\$ (358,026)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended June 30, 2012 and 2011 (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 interest on its outstanding bonds. HYIC is governed by the 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.

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 governmental accounting standards.

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 and 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.

Cash Equivalents

Cash equivalents consist of money market funds and investments maturing within 90 days from the purchase date.

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and/or will 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;
- 5) Payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements;
- 6) Interest earned on unspent bond proceeds, which is generally used for debt service; and
- 7) Grants from The City. Such grants are recognized as revenue upon receipt.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

As of June 30, 2011, HYIC had accrued approximately \$13.9 million as an estimated arbitrage rebate obligation. During fiscal year 2012, HYIC made an arbitrage rebate payment to the United States Treasury for its required arbitrage obligation of approximately \$8.8 million. The difference of approximately \$5.1 million between what was accrued in prior years and what was paid in fiscal year 2012 is reflected as an arbitrage rebate credit in the government-wide financial statements. The annual estimated arbitrage obligation was accrued each year on the government-wide financial statements, but was not reported as an expenditure in the governmental fund financial statements until fiscal year 2012 when the actual payment was made 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, 2012 and 2011 were \$117,457 and \$89,985, respectively, which were net of accumulated amortization of \$16,310 and \$12,855, respectively. The amounts of unamortized issuance costs at June 30, 2012 and 2011 were \$32,270 and \$26,166, respectively, which were net of accumulated amortization of \$4,687 and \$3,738, 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 implementation in the current year and standards which will or may impact HYIC in future years.

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* ("GASB 60"). GASB 60 establishes the financial reporting for service concession agreements, which are a type of public-private or public-public partnership. GASB 60 is effective for financial statements periods beginning after December 15, 2011. As HYIC has not entered into any service concession agreements, GASB 60 is not expected to have an impact on HYIC's financial statements.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34* ("GASB 61"). GASB 61 amends existing standards relating to the composition and reporting of the governmental financial reporting entity. GASB 61 is effective for financial statement periods beginning after June 15, 2012, 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"). GASB 62 incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for US state and local governments. GASB 62 is effective for financial statement periods beginning after December 15, 2011. HYIC has not completed the process of evaluating 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"). GASB 63 establishes new reporting requirements of two 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. GASB 63 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 renaming of HYIC's financial statements to Net 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"). GASB 64 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. GASB 64 is effective for financial statements for periods beginning after June 15, 2011. As HYIC has not entered into any such agreements, GASB 64 does not have an impact on its financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 establishes accounting and reporting standards that reclassify certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB 65 are effective for financial statement for periods beginning after December 15, 2012. HYIC has not completed the process of evaluating GASB 65, but it expects to change its accounting on how debt issuance costs are recognized and reported in the government-wide financial statements in that the carrying value of cost of issuance will not be reported on the statement of net assets, resulting in a restatement of beginning net assets upon implementation.
- In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. HYIC has not completed the process of evaluating GASB 66, but does not expect it to have an impact on its financial statements.
- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB 68 are effective for financial for fiscal years beginning after June 15, 2014. HYIC has not completed the process of evaluating GASB 68, but does not expect it to have an impact on its financial statements.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2012 and 2011, 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 at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash	\$ -	\$ -
Cash Equivalents (see Note 4)	<u>217,703</u>	<u>227,691</u>
Total Cash and Cash Equivalents	<u>\$ 217,703</u>	<u>\$ 227,691</u>

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unrestricted:		
U.S. Treasury Money Market Funds	\$ 197	\$ 272
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
U.S. Treasury Bills (maturing within one year)	16,365	-
Total unrestricted	<u>16,562</u>	<u>25,236</u>
Restricted for Debt Service:		
U.S. Treasury Money Market Funds	3,311	6,448
U.S. Treasury Bills (maturing within one year)	154,368	-
Total restricted for Debt Service	<u>157,679</u>	<u>6,448</u>
Restricted for Capital Projects:		
U.S. Treasury Money Market Funds	94,375	42,435
Commercial Paper (maturing within 90 days)	42,824	178,536
Commercial Paper (maturing after 90 days)	419,032	68,985
Federal Farm Credit Bank discount notes (maturing within one year)	24,993	-
Federal National Mortgage Association discount notes (maturing within one year)	149,962	-
U.S. Treasury Bills (maturing within one year)	249,884	-
Total restricted for Capital Project	<u>981,070</u>	<u>289,956</u>
Total investments including cash equivalents	1,155,311	321,640
Less amounts reported as cash equivalents (see Note 3)	<u>(217,703)</u>	<u>(227,691)</u>
Total investments	<u>\$ 937,608</u>	<u>\$ 93,949</u>

HYIC's management invests funds which are not immediately required for operations, debt service or capital project expenses. Each account of 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. Investments are reported at fair value using market prices in an active market as of the financial statement date.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, HYIC may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments are registered and are held by HYIC's agent in HYIC's name.

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

4. INVESTMENTS (continued)

Credit Risk

All investments held by HYIC at June 30, 2012 and 2011 are obligations of, or guaranteed by, the United States of America; or are invested in Federal Home Loan Mortgage Corporation securities which are rated by S&P A-1+, Moody P-1, and Fitch F1+; Federal National Mortgage Association securities which are rated by S&P AA+, Moodys Aaa, and Fitch AAA; money market funds which are rated by S&P AAA and Moodys Aaa-; and commercial paper that 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, 2012, HYIC's investments are in eligible government obligations and commercial paper. These are 60% and 40% 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, 2012 and 2011 (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 billion to partially finance the Project. The Series 2007A Bonds are term bonds with semiannual interest payment dates beginning on August 15, 2007 and maturing on February 15, 2047. On October 26, 2011, HYIC issued its Fiscal 2012 Series A Senior Revenue Bonds in the amount of \$1 billion. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds to finance the remaining portion of the Project. The Series 2012A Bonds are term bonds with semiannual interest payments beginning on February 15, 2012 and maturing on February 15, 2047.

Interest on the Series 2007A Bonds and Series 2012A Bonds are payable semiannually on February 15 and August 15. Payments of principal on the Series 2007A Bonds and the Series 2012A 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 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 bonds and prior to the Conversion Date, all revenues remaining after funding expenses and interest must be used to purchase or redeem Series 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 bonds no later than the June 30th following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.25%.

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2012 follows:

Series	Period Ended June 30, 2012				
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Fiscal 2007 Series A	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ -
Fiscal 2012 Series A	-	1,000,000	-	1,000,000	-
Total Long-term Debt	<u>\$ 2,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>

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

Series	Period Ended June 30, 2011				
	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Fiscal 2007 Series A	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ -
Total Long-term Debt	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS (continued)

As of and for the years ended June 30, 2012 and 2011 (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2012, are as follows:

Years Ended June 30,	Principal	Interest	Total
2013	\$ -	\$ 153,125	\$ 153,125
2014	-	153,125	153,125
2015	-	153,125	153,125
2016	-	153,125	153,125
2017	-	153,125	153,125
2018 to 2022	-	765,625	765,625
2023 to 2027	-	765,625	765,625
2028 to 2032	-	765,625	765,625
2033 to 2037	-	765,625	765,625
2038 to 2042	-	765,625	765,625
2043 to 2047	3,000,000	612,500	3,612,500
Totals	<u>\$ 3,000,000</u>	<u>\$ 5,206,250</u>	<u>\$ 8,206,250</u>

Claims and Litigation

As of June 30, 2011, 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 was estimated to be \$60 million, which was HYIC's best estimate as of the end of fiscal year 2011, based upon available information. In September 2011, the New York State Supreme Court (the "Court") issued a determination that the Claimants' appraisals had relied upon an erroneous zoning assumption. HYIC has reversed the \$60 million liability accrual, resulting in a project expense credit of \$39.8 million being reported in the government-wide financial statements. The Claimants have appealed the Court's determination to the Appellate Division for the First Department and have not submitted revised appraisals. In view of the aforesaid determination by the Court and the Claimants' appeal thereof, the Corporation's potential liability as of June 30, 2012, if any, with respect to any revised claims cannot be estimated.

During the fiscal year ended June 30, 2012, a new claimant, who was not a party to the above proceedings, has filed suit related to valuation as part of condemnation proceedings. As such, an accrual of \$1.4 million has been recorded as of June 30, 2012 until such time that a determination is made with regards to the claim. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

DIRECTORS & OFFICERS

Directors

Mark Page

Director of Management and Budget of the City of New York

John C. Liu

City Comptroller

Christine Quinn

City Council Speaker

Robert K. Steel

Deputy Mayor for Economic Development

Cas Holloway

Deputy Mayor for Operations

Officers

Alan L. Anders

President

Marjorie E. Henning

Vice President and Secretary

F. Jay Olson

Treasurer

Philip Wasserman

Deputy Treasurer

Prescott D. Ulrey

Assistant Secretary

Jeffrey M. Werner

Assistant Secretary

Michele Mark Levine

Comptroller

Robert Balducci

Deputy Comptroller

Kemraj Narine

Assistant Comptroller

Director of Media & Investor Relations

Raymond J. Orlando

OrlandoR@omb.nyc.gov

212.788.5875



255 Greenwich Street
New York, NY 10007