

***Hudson Yards  
Infrastructure  
Corporation***

*Financial Statements  
For the year ended June 30, 2006  
Independent Auditors' Report*

# HUDSON YARDS INFRASTRUCTURE CORPORATION

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## INDEPENDENT AUDITORS' REPORT

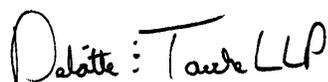
To the Members of the Board of Directors and Audit Committee of the Hudson Yards Infrastructure Corporation:

We have audited the accompanying financial statements of the governmental activities of the Hudson Yards Infrastructure Corporation ("HYIC") a component unit of The City of New York, New York, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the HYIC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HYIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, 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 HYIC as of and for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of HYIC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



October 16, 2006  
(December 21, 2006 as to the issuance of the Fiscal 2007 Series A Bonds described in Note 4)

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

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The following is a narrative overview and analysis of the financial activities of the Hudson Yards Infrastructure Corporation ("HYIC") as of and for the year ended June 30, 2006. It should be read in conjunction with HYIC's financial statements, governmental funds financial statements and the notes to the financial statements.

HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan. The Corporation does not engage in development directly, but finances development to be carried out by Hudson Yards Development Corporation ("HYDC") and existing public entities. The infrastructure improvements (the "Project") on the west side of the borough of Manhattan are in an area generally bounded by Seventh and Eighth Avenues on the East, West 43<sup>rd</sup> Street on the north, Twelfth Avenue on the west and West 29<sup>th</sup> and 30<sup>th</sup> Streets on the south (the "Project Area"). The Project consists of (1) the design and construction of an extension of the No. 7 Subway from its current terminus at 7<sup>th</sup> Avenue and 41<sup>st</sup> Street to a new terminal at 11<sup>th</sup> Avenue and West 34<sup>th</sup> Street (the "No. 7 Subway Construction"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30<sup>th</sup> and West 33<sup>rd</sup> 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.

The financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the entity-wide financial statements; and (3) the governmental funds financial statements.

The entity-wide financial statements, which include the statement of net assets and the statement of activities, are presented to display information about HYIC as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended. This is to provide the reader with a broad overview of HYIC's finances. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting, in which all revenues and expenses are taken into account regardless of when cash is paid or received.

HYIC's governmental fund 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 unmatured interest on bonds payable, which is recognized when due.

As of June 30, 2006, HYIC has no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between the entity-wide financial statements and its governmental fund financial statements for fiscal 2006, and no reconciliation is provided.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEAR ENDED JUNE 30, 2006

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### **FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted)**

At June 30, 2006, HYIC had assets of \$9,679 consisting of cash and cash equivalents and liabilities of \$393 of accrued expenses. The net asset balance of \$9,286 at year end is primarily the result of collections of district improvement bonuses ("DIBs") during the year.

During the year ended June 30, 2006, HYIC's revenue of \$11,179 consisted primarily of \$11,120 of DIBs, and its expenses for the year of \$1,893 consisted of Project costs (transfers to HYDC) of \$1,500 and general and administrative costs of \$393.

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

At June 30, 2006, HYIC's debt service fund (DSF) had assets of \$9,679 consisting of cash and cash equivalents and liabilities of \$393 of accrued expenses. The DSF unreserved fund balance of \$9,286 at year end is primarily the result of collections of DIBs during the year.

During the year ended June 30, 2006, the DSF revenue of \$11,179 consisted primarily of DIBs of \$11,120. DSF expenditures for the year were \$393 of general and administrative costs an inter-fund transfer of \$1,500 from the DSF to the capital projects fund (CPF) was made during the year, and the CPF's only other activity for the year was the transfer of this amount to HYDC.

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# HUDSON YARDS INFRASTRUCTURE CORPORATION

## STATEMENT OF NET ASSETS AS OF JUNE 30, 2006

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### ASSETS:

Unrestricted cash and cash equivalents	<u>\$9,679,474</u>
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Total assets	<u>9,679,474</u>
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### LIABILITIES:

Accrued expenses	<u>\$ 393,400</u>
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Total liabilities	<u>393,400</u>
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### NET ASSETS:

Unrestricted	<u>\$9,286,074</u>
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See notes to financial statements.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

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REVENUES:	
District improvement bonuses	\$ 11,120,100
Investment income	<u>59,374</u>
Total revenues	<u>11,179,474</u>
EXPENSES:	
Project expenditures - funds transferred to Hudson Yards Development Corporation	1,500,000
General and administrative	<u>393,400</u>
Total expenses	<u>1,893,400</u>
CHANGE IN NET ASSETS	9,286,074
NET ASSETS—Beginning of year	<u>-</u>
NET ASSETS—End of year	<u>\$ 9,286,074</u>

See notes to financial statements.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## GOVERNMENTAL FUND BALANCE SHEET AS OF JUNE 30, 2006

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	<b>Debt Service Fund</b>
<b>ASSETS:</b>	
Unrestricted cash and cash equivalents	<u>\$ 9,679,474</u>
Total assets	<u>\$ 9,679,474</u>
<b>LIABILITIES:</b>	
Accrued expenses	<u>\$ 393,400</u>
Total liabilities	393,400
<b>FUND BALANCE:</b>	
Unreserved	<u>9,286,074</u>
Total liabilities and fund balance	<u>\$ 9,679,474</u>

See notes to financial statements.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2006

	Debt Service Fund	Capital Projects Fund	Eliminations	Total Governmental Funds
REVENUES:				
District improvement bonuses	\$ 11,120,100	\$ -	\$ -	\$ 11,120,100
Investment income	<u>59,374</u>	<u>-</u>	<u>-</u>	<u>59,374</u>
Total revenues	<u>11,179,474</u>	<u>-</u>	<u>-</u>	<u>11,179,474</u>
EXPENDITURES:				
Project expenditures - funds transferred to Hudson Yards Development Corporation	-	1,500,000	-	1,500,000
General and administrative	<u>393,400</u>	<u>-</u>	<u>-</u>	<u>393,400</u>
Total expenditures	<u>393,400</u>	<u>1,500,000</u>	<u>-</u>	<u>1,893,400</u>
OTHER FINANCING SOURCES (USES):				
Transfers in (Out)	<u>(1,500,000)</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	9,286,074	-	-	9,286,074
FUND BALANCE—Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE —Ending	<u>\$ 9,286,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,286,074</u>

See notes to financial statements.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006 (amounts in thousands, except as noted)

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### 1. ORGANIZATION

HYIC is a local development corporation organized under the New York State Not-For-Profit Corporation Law by The City of New York ("The City"). HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan. The Corporation does not engage in development directly, but finances development to be carried out by Hudson Yards Development Corporation ("HYDC") and existing public entities. The infrastructure improvements (the "Project") on the west side of the borough of Manhattan are in an area generally bounded by Seventh and Eighth Avenues on the East, West 43<sup>rd</sup> Street on the north, Twelfth Avenue on the west and West 29<sup>th</sup> and 30<sup>th</sup> Streets on the south (the "Project Area"). The Project consists of (1) the design and construction of an extension of the No. 7 Subway from its current terminus at 7<sup>th</sup> Avenue and 41<sup>st</sup> Street to a new terminal at 11<sup>th</sup> Avenue and West 34<sup>th</sup> Street (the "No. 7 Subway Construction"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30<sup>th</sup> and West 33<sup>rd</sup> 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 will fulfill 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 based on its allocated share of personnel and overhead costs. For the year ended June 30, 2006, the allocable share of such costs was negligible, and thus no management fee was charged.

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 GASB Statement 14, as amended.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Measurement focus and basis of accounting*

The Entity-wide financial statements of HYIC, which include the statement of net assets and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34, as amended. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED JUNE 30, 2006 (amounts in thousands, except as noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Measurement focus and basis of accounting (continued)*

HYIC's governmental fund 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 unmatured interest on bonds payable, which is recognized when due.

The governmental fund financial statements consist of a debt service fund, which accounts for the accumulation of resources for payment of principal and interest on debt and supports the operations of HYIC; and a capital projects fund, which reports receipt of bond proceeds and expenditures for the Project and for payments to HYDC to support HYDC's operations.

As of June 30, 2006, HYIC has no assets that are not currently available financial resources, and no general long-term liabilities. Therefore, there are no differences between the entity-wide financial statements and its governmental fund financial statements for fiscal 2006, and no reconciliation is provided.

#### *Capital Assets*

HYIC will not be the owner of the Project assets constructed or acquired (other than transferable development rights which may be acquired from the Metropolitan Transportation Authority) 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, the 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 \$35,000; no such assets have been acquired or constructed.

#### *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, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

## NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED JUNE 30, 2006 (amounts in thousands, except as noted)

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### 3. CASH AND CASH EQUIVALENTS

HYIC's cash and cash equivalents consist of bank deposits, money market funds, and short-term securities with original maturities of three months or less. At June 30, 2006, cash and cash equivalents of \$9,679 consist primarily of \$9,599 of Federal Home Loan Bank discount notes held by HYIC's agent in HYIC's name. At June 30, 2006, the carrying amount of bank deposits was \$80, all of which was insured by the Federal Deposit Insurance Corporation.

### 4. SUBSEQUENT EVENTS

The Rail Yards Agreement dated September 28, 2006, between the Metropolitan Transportation Authority ("MTA"), Triborough Bridge and Tunnel Authority, The Long Island Railroad Company, and The City of New York (the "Agreement"), which details the treatment of Eastern Rail Yards Transferable Development Rights ("TDRs"), including HYIC's acquisition of an interest in the TDRs for \$200 million, and HYDC's authority to market the TDRs and manage their sale. The Board of Directors of HYIC has passed resolutions agreeing to fulfill their obligations under the Agreement.

On December 21, 2006, HYIC issued Fiscal 2007 Series A Bonds in the aggregate amount of \$2,102,840 of new money to finance the Project.

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