HYIC Hudson Yards Infrastructure Corporation

2008 Annual Report





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Hudson Yards Infrastructure Corporation

The Hudson Yards Infrastructure Corporation (the "Corporation") 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 Corporation's bonds are secured by revenues of the Corporation, including payments in lieu of taxes, payments in lieu of mortgage recording tax collected within the Hudson Yards Financing District and certain payments from the City, subject to annual appropriation.

Letter from the President

We are pleased to present the annual report for the Hudson Yards Infrastructure Corporation ("HYIC") for the fiscal years ending June 30, 2008 and June 30, 2007. 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. HYIC stated in the official statement relating to its bonds that it expects to issue additional bonds in the aggregate amount of $1 billion

for the Project in 2011. Under the Support and Development Agreement between HYIC, HYDC and the City, the City has agreed to make payments, subject to annual appropriation, in an amount sufficient, together with any revenues HYIC receives from development to pay interest on its bonds, for as long as those bonds are outstanding. The principal amount of bonds which HYIC may issue that are entitled to the benefits of the Interest Support Agreement is capped at $3 billion.

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

A Subway Extension Memorandum of Understanding entered into between the HYIC, the City, HYDC and the Metropolitan Transportation Authority (the "MTA") provided that HYIC, the City or HYDC would provide up to $2.1 billion of the cost of extending the No. 7 subway line approximately two miles from its terminus on West 41st Street between Seventh and Eighth Avenues westward under West 41st Street to Eleventh Avenue and then southward to a new terminal station at West 34th Street and Eleventh Avenue. The No. 7 line extension is being constructed and will be operated by the MTA.

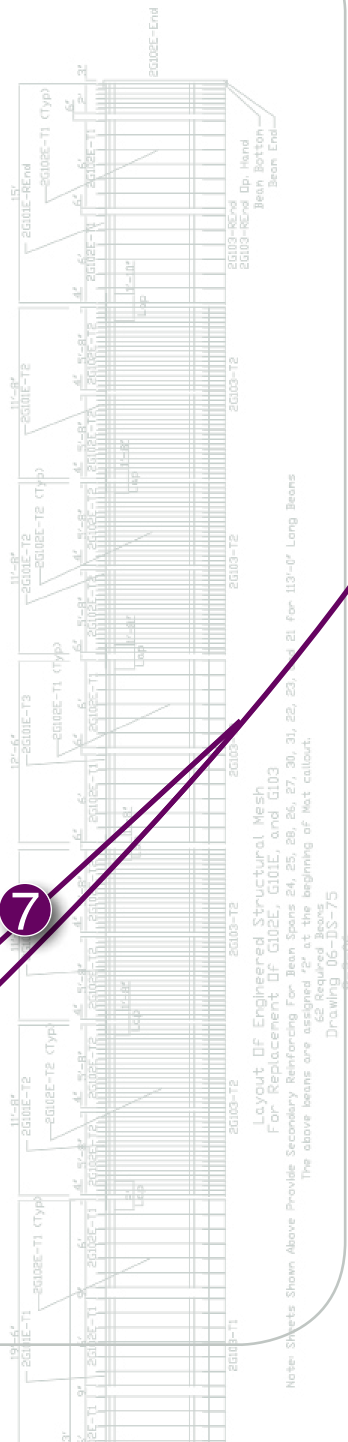
On November 13, 2007, the Board of the MTA approved the tunneling contract for the No. 7 line extension for a cost of $1,144,995,900 and a term of 57 months. The contract included an option for the construction of a shell for a second subway station at 41st Street and 10th Avenue. The option was not exercised and expired in September 2008.

On May 22, 2008, the Board of the MTA designated two affiliated entities of The Related Companies, RG ERY LLC and RG WRY LLC, as the developers of the Eastern Railyard and the Western Railyard, respectively. The MTA entered into a Conditional Designation Letter with each of RG ERY and RG WRY which established a deadline of October 2008 for the execution of a lease and associated documents. The MTA has extended such deadline to January 31, 2009.

In March 2008, the City released a Request for Proposals to select a design team for Hudson Park and Boulevard. The City expects to award a design contract in early 2009.

Very truly yours,

ALAN ANDERS
PRESIDENT



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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, as of and for the years ended June 30, 2008 and 2007, 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 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. 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 HYIC as of June 30, 2008 and 2007, 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.

The management's discussion and analysis on pages 6 through 12 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 the information and we do not express an opinion on it.

Deloitte & Touche LLP

September 17, 2008

Member of
Deloitte Touche Tohmatsu

Management's Discussion and Analysis

For the Years Ended June 30, 2008 and 2007

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 and for the years ended June 30, 2008 and 2007. It should be read in conjunction with HYIC's entity-wide financial statements, governmental funds financial statements and the notes to the financial statements.

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

The entity-wide financial statements, which include the statements of net (deficit) assets and the statements 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 entity-wide financial statements 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 interest on bonds payable and estimated arbitrage rebate liabilities, which are recognized when due.

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 development directly, but finances development to be 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 ("TDRs") over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY"), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuances of bonds to finance the Project, including the operations of HYDC, and the collection of revenues to support its operations and service its debt. HYIC revenues include and/or will include: (1) Interest Support Payments ("ISP") to be made by the City of New York ("the City") under the terms of the Support and Development Agreement ("Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISPs on up to $3 billion of HYIC bonds in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds; (2) payments in lieu of real estate taxes ("PILOTs") 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");

ORGANIZATIONAL OVERVIEW (continued)

(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. The PILOT Agreements are expected to be entered into by developers because the PILOTs 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 Transferable Development Rights (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 expenses and interest must be used to purchase or redeem senior bonds in advance of their maturity, except that, if, during such fiscal year, the City has made ISPs, then HYIC must first reimburse the City for such ISPs. Prior to the Conversion Date, HYIC is not obligated to make any payments of principal of its bonds prior to maturity unless and until HYIC receives revenues in amounts sufficient to make such payments. After the Conversion Date, HYIC must establish a schedule of sinking fund installments for all outstanding debt no later than June 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS

(amounts in thousands, except as noted)

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

On December 28, 2006, HYIC acquired a 50% interest in Transferable Development Rights ("TDRs") upon making the first $100 million payment required under the terms of the purchase agreement among the City, MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The TDR Agreement requires HYIC to make three annual payments in the amount of $33.3 million in September of 2007, 2008 and 2009 for this interest, the first of which was made by HYIC on September 28, 2007. The full value of the TDR is reflected as an asset in HYIC's financial statements (on the debt service fund balance sheet and the statement of net (deficit) assets), and the amount due to the MTA is reflected as a long-term liability on the statement of net (deficit) assets.

Management's Discussion and Analysis (continued)

For the Years Ended June 30, 2008 and 2007

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS

(amounts in thousands, except as noted) (continued)

The following summarizes the activities of HYIC for the years ended June 30, 2008, 2007 and 2006:

	2008	2007	2006	Change 2008 v 2007	Change 2007 v 2006
Revenues:					
Program revenue	$ 8,613	$ 62,946	$11,120	$ (54,333)	$ 51,826
Other revenue	127,305	43,257	59	84,048	43,198
Total revenue	135,918	106,203	11,179	29,715	95,024
Expenses:					
Project	516,244	114,703	1,500	401,541	113,203
Bond Interest	89,122	46,542	—	42,580	46,542
Arbitrage rebate	6,721	3,814	—	2,907	3,814
Other	1,336	1,144	393	192	751
Total expenses	613,423	166,203	1,893	447,220	164,310
Change in net assets	(477,505)	(60,000)	9,286	(417,505)	(69,286)
Net (deficit) assets, beginning of period	(50,714)	9,286	—	(60,000)	9,286
Net (deficit) assets, end of period	$(528,219)	$ (50,714)	$ 9,286	$(477,505)	$ (60,000)

In 2008 program revenue was composed of DIBs and TEP and declined to $9 million from $63 million in 2007. The decline was primarily due to a decrease in DIBs, as fewer developers submitted applications for additional-density development in the project area. Other revenue, primarily investment earnings, increased because HYIC held unspent bond proceeds for a full year in 2008. The increase interest earnings on bond proceeds resulted in an increased arbitrage rebate expense in 2008 compared to 2007, which reflects the estimated amount of interest earnings on bond proceeds above the yield of the tax exempt bonds and which HYIC expects to be required to rebate to the United States Internal Revenue Service in the future. Project spending increased in 2008 compared to 2007 as contracts were entered into and work began on the Subway Extension and additional property was acquired for the Project. A full year's worth of bond interest expense was incurred for the first time in 2008, resulting in an increase compared to 2007 when bonds were outstanding for approximately half of the year.

In 2007 program revenue was composed primarily of DIBs, which increased compared to 2006. This was attributable to the increase in applications submitted for additional-density development in the project area. Other revenue, primarily investment earnings, increased because of holdings of bond proceeds and increased holdings of DIB funds in 2007 compared to 2006. Project expenses increased from 2006 to 2007 primarily for property acquisition and preliminary costs for the Subway Extension, and to fund the first full year of full-scale operation of HYDC. Bond interest expense was incurred for the first time in 2007, as was the expense for arbitrage rebate. The increase in other expenses is primarily for the first year of amortization of bond issuance costs.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS

(amounts in thousands, except as noted) (continued)

The following summarizes HYIC's assets, liabilities and net (deficit) assets as of June 30, 2008, 2007 and 2006:

	2008	2007	2006	Change 2008 v 2007	Change 2007 v 2006
Assets:					
Total assets—non-capital	$ 1,913,347	$ 2,204,865	$9,679	$(291,518)	$ 2,195,186
Liabilities:					
Current liabilities	300,000	84,829	393	215,171	84,436
Long-term liabilities	2,141,566	2,170,750	—	(29,184)	2,170,750
Total liabilities	2,441,566	2,255,579	393	185,987	2,255,186
Net (deficit) assets:					
Restricted	1,448,800	1,967,493	—	(518,693)	1,967,493
Unrestricted	(1,977,019)	(2,018,207)	9,286	41,188	(2,027,493)
Total net (deficit) assets	$ (528,219)	$ (50,714)	$9,286	$(477,505)	$ (60,000)

Total assets decreased during 2008 primarily as a result of bond proceeds being drawn-down to pay Project costs, as discussed above. Current liabilities were significantly higher at the end of 2008 than 2007, primarily as a result of Project costs for subway extension and property acquisition that were payable at June 30, 2008. This impact was slightly offset by a lower accrued bond interest payable in 2008 than in 2007 when the bond interest payable amount was unusually high because the first interest payment on HYIC's bonds was not payable until August 2007, thus over six month's interest had accrued between the December 2006 issuance and June 30, 2007 year end. Long-term liabilities were lower at the end of 2008 than 2007 because the first of three installment payments to the MTA for the TDRs was made during 2008; this impact was partially offset by the increase in the arbitrage rebate liability which occurred for the reasons discussed above.

The increase in assets between June 30, 2006 and 2007 is primarily the result of unspent bond proceeds, DIB revenues, and interest earnings on hand at June 30, 2007, as well as the value of the TDRs purchased during the year. The increase in current liabilities primarily reflects bond interest payable at June 30, 2007 and the installment payment due during 2008 for the TDRs. The increase in long-term liabilities primarily reflects the bonds outstanding and the portion of the TDR installment payments due after one year.

The large negative unrestricted and total net assets balances at June 30, 2008 and 2007 are primarily due to the issuance of bonds that will be repaid from future revenues.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS

(amounts in thousands, except as noted)

HYIC reports governmental activity using two funds: (1) a debt service fund ("DSF") and (2) a capital projects fund ("CPF").

Management's Discussion and Analysis (continued)

For the Years Ended June 30, 2008 and 2007

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS

(amounts in thousands, except as noted) (continued)

The following summarizes the changes in DSF balances for the years ended June 30, 2008, 2007 and 2006:

	2008	2007	2006	Change 2008 v 2007	Change 2007 v 2006
Revenues:					
Program revenue	$ 8,613	$ 62,946	$11,120	$ (54,333)	$ 51,826
Other revenue	2,672	798	59	1,874	739
Total revenues	11,285	63,744	11,179	(52,459)	52,565
Expenditures:	106,908	396	393	106,512	3
Other financing sources (uses)	82,856	213,116	(1,500)	(130,260)	214,616
Net change in fund balance	(12,767)	276,464	9,286	(289,231)	267,178
Fund balance, beginning of period	285,750	9,286	—	276,464	9,286
Fund balance, end of period	$272,983	$285,750	$ 9,286	$ (12,767)	$276,464

During the year ended June 30, 2008, DSF program (DIB) revenues decreased and other revenues (investment income) increased compared to 2007, as previously discussed. DSF expenditures increased significantly during 2008 compared to 2007, reflecting the start of bond interest payments. The other financing sources net of uses declined in 2008 primarily due to the partial repayment (a use) during 2008 of the installment purchase debt used to purchase (a source) the TDRs in 2007.

During the year ended June 30, 2007, DSF DIB and other revenues (investment income) increased compared to 2006, as previously discussed. Expenditures for both years consist of general and administrative costs. The other financing sources in 2007 represents bond proceeds and the installment purchase debt used to purchase the TDRs, while the 2006 other financing source was a transfer to the capital projects fund made out of DIB revenue earned during that year.

The following summarizes the changes in CPF balances for the years ended June 30, 2008, 2007 and 2006:

	2008	2007	2006	Change 2008 v 2007	Change 2007 v 2006
Revenues:	$ 124,633	$ 42,459	$ —	$ 82,174	$ 42,459
Expenditures:					
Project	516,244	114,703	1,500	401,541	113,203
Other	—	29,904	—	(29,904)	29,904
Total expenditures	516,244	144,607	1,500	371,637	143,107
Other financing sources (uses)	(116,189)	1,992,069	1,500	(2,108,258)	1,990,569
Net change in fund balance	(507,800)	1,889,921	—	(2,397,721)	1,889,921
Fund balance, beginning of period	1,889,921	—	—	1,889,921	—
Fund balance, end of period	$1,382,121	$1,889,921	$ —	$ (507,800)	$1,889,921

Management's Discussion and Analysis (continued)

For the Years Ended June 30, 2008 and 2007

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS

(amounts in thousands, except as noted) (continued)

During 2008, revenue in the CPF—which was composed of investment income on unspent bond proceeds—increased compared to 2007 as the proceeds were invested for a full year in 2008 after the mid-year bond issuance in 2007. Project expenses in the CPF increased in 2008 compared to 2007, as discussed above. The decrease in other financing sources net of uses reflected the transfer of some CPF interest earnings to the DSF to be used to pay debt service, in accordance with the terms of the Indenture.

Revenue in the CPF in 2007 was composed of investment income on the proceeds of the mid-year bond issue. Project expenses in the CPF increased in 2007 compared to 2006 primarily for property acquisition and preliminary costs for the Subway Extension, and to fund a full year of full-scale operation of HYDC. The other expenditures in 2007 were non-recurring costs incurred in connection with the issuance of the bonds. The increase in other financing sources in 2007 compared to 2006 resulted from the bond issuance.

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2008, 2007 and 2006:

	2008	2007	2006	Change 2008 v 2007	Change 2007 v 2006
Assets:					
Cash and investments	$ 66,734	$ 78,250	$9,679	$(11,516)	$ 68,571
Transferable development rights	208,152	202,345	—	5,807	202,345
Other	247	5,193	—	(4,946)	5,193
Total assets	$275,133	$285,788	$9,679	$(10,655)	$276,109
Liabilities:					
Accrued expenses	$ 2,150	$ 38	$ 393	$ 2,112	$ (355)
Total liabilities	2,150	38	393	2,112	(355)
Fund Balance:					
Reserved	66,679	77,572	—	(10,893)	77,572
Unreserved	206,304	208,178	9,286	(1,874)	198,892
Total fund balance	272,983	285,750	9,286	(12,767)	276,464
Total liabilities and fund balance	$275,133	$285,788	$9,679	$(10,655)	$276,109

DSF assets were lower at the end of 2008 compared to 2007, primarily because of declines in cash and investments held and amounts receivable by the DSF at year end. The decline in cash and investment holdings reflects the lower year-end collections of DIBs in 2008 versus 2007, as discussed above. The 2007 other assets amount includes the receivable balance that reflected a TEP amount due from the City; however, at the end of 2008 HYIC had received more TEP than earned from the City and thus the 2008 DSF year-end receivables are lower and the liabilities are higher than those reported for 2007. The increase in the value of TDRs reflects the 2008 cost of the borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS

(amounts in thousands, except as noted) (continued)

DSF assets increased during 2007 primarily as a result of additional DIB revenues retained for HYIC's short-term operating needs, and the purchase of TDRs, as discussed previously. Accrued expenses at year end were lower in 2007 than in 2006 because the 2006 balance included a fee for non-recurring consulting work for which HYIC made payment during 2007.

The following summarizes the CPF assets, liabilities, and fund balances as of June 30, 2008, 2007 and 2006:

	2008	2007	2006	Change 2008 v 2007	Change 2007 v 2006
Assets:					
Cash and investments	$1,609,805	$1,889,921	$ —	$(280,116)	$1,889,921
Total Assets	$1,609,805	$1,889,921	$ —	$(280,116)	$1,889,921
Liabilities	$ 227,684	$ —	$ —	$ 227,684	$ —
Fund Balance:					
Reserved	1,382,121	1,889,921	—	(507,800)	1,889,921
Unreserved	—	—	—	—	—
Total fund balance	1,382,121	1,889,921	—	(507,800)	1,889,921
Total liabilities and fund balance	$1,609,805	$1,889,921	$ —	$(280,116)	$1,889,921

CPF cash and investments on hand, as well as the fund balance, at June 30, 2008 and 2007 represent unspent bond proceeds, and the decrease between the years reflects project expenditures made during 2008, as discussed above. There were no bonds outstanding and thus no unspent proceeds as of June 30, 2006.

* * * * *

Statement of Net (Deficit) Assets

As of June 30, 2008 and 2007

(amounts in thousands)	2008	2007
ASSETS		
Unrestricted cash and cash equivalents	$ 115	$ 683
Restricted cash and cash equivalents	69,630	60,405
Restricted investments	1,606,794	1,907,083
Interest receivable	60	5
Tax equivalency payments receivable	—	5,008
Other receivables	12	—
Prepaid insurance	175	180
Transferable development rights	208,152	202,345
Unamortized bond issue costs	28,409	29,156
Total assets	1,913,347	2,204,865
LIABILITIES		
Project costs payable	$ 227,684	$ —
Accrued expenses	41	38
Tax equivalency overpayment by City of New York	2,109	—
Arbitrage rebate liability	10,535	3,814
Accrued bond interest payable	36,833	51,458
Long-term debt:		
portion due within one year	33,333	33,333
portion due after one year	2,033,333	2,066,667
Unamortized bond premium	97,698	100,269
Total liabilities	2,441,566	2,255,579
NET (DEFICIT) ASSETS		
Restricted for Debt Service	66,679	77,572
Restricted for Capital Projects and TDR Purchases	1,382,121	1,889,921
Unrestricted	(1,977,019)	(2,018,207)
Total net deficit	$ (528,219)	$ (50,714)

See notes to financial statements.

Statement of Activities

For the Years Ended June 30, 2008 and 2007

(amounts in thousands)	2008	2007
REVENUES:		
District improvement bonus revenue	$ 6,930	$ 57,938
Property tax equivalency payment revenue	1,683	5,008
Investment income	127,305	43,257
Total revenues	135,918	106,203
EXPENSES:		
Project—Subway Extension	248,765	37,553
Project—Land Acquisition and Public Amenities	264,458	70,964
Project—Transfers to Hudson Yards Development Corporation	3,021	6,186
Bond interest	89,122	46,542
Arbitrage rebate	6,721	3,814
Amortization of bond issuance costs	747	748
General and Administrative	589	396
Total expenses	613,423	166,203
Change in Net Assets	(477,505)	(60,000)
Net (Deficit) Assets—Beginning of period	(50,714)	9,286
Net (Deficit) Assets—End of period	$(528,219)	$ (50,714)

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2008

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash and cash equivalents	$ 115	$ —	$ 115
Restricted cash and cash equivalents	66,619	3,011	69,630
Restricted investments	—	1,606,794	1,606,794
Interest receivable	60	—	60
Tax equivalency payments receivable	—	—	—
Other receivables	12	—	12
Prepaid insurance	175	—	175
Transferable development rights	208,152	—	208,152
Total assets	$275,133	$1,609,805	$1,884,938
LIABILITIES:			
Project costs payable	$ —	$ 227,684	$ 227,684
Accrued expenses	41	—	41
Tax equivalency overpayments by City of New York	2,109	—	2,109
Total liabilities	2,150	227,684	229,834
FUND BALANCE:			
Reserved for Debt Service	66,679	—	66,679
Reserved for Capital Projects	—	1,382,121	1,382,121
Unreserved	206,304	—	206,304
Total fund balance	272,983	1,382,121	1,655,104
Total liabilities and fund balances	$275,133	$1,609,805	$1,884,938

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2007

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash and cash equivalents	$ 683	$ —	$ 683
Restricted cash and cash equivalents	57,885	2,520	60,405
Restricted investments	19,682	1,887,401	1,907,083
Interest receivable	5	—	5
Tax equivalency payments receivable	5,008	—	5,008
Prepaid insurance	180	—	180
Transferable development rights	202,345	—	202,345
Total assets	$285,788	$1,889,921	$2,175,709
LIABILITIES:			
Accrued expenses	$ 38	$ —	$ 38
Total liabilities	38	—	38
FUND BALANCE:			
Reserved for Debt Service	77,572	—	77,572
Unreserved	208,178	1,889,921	2,098,099
Total fund balance	285,750	1,889,921	2,175,671
Total liabilities and fund balances	$285,788	$1,889,921	$2,175,709

See notes to financial statements.

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2008

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
District improvement bonus revenue	$ 6,930	$ —	$ 6,930
Property tax equivalency payment revenue	1,683	—	1,683
Investment income	2,672	124,633	127,305
Total revenues	11,285	124,633	135,918
EXPENDITURES:			
Project Expenditures—Subway Extension	—	248,765	248,765
Project Expenditures—Land Acquisition and Public Amenities	—	264,458	264,458
Project Expenditures—Transfers to Hudson Yards Development Corporation	—	3,021	3,021
Interest expense	106,319	—	106,319
General and administrative	589	—	589
Costs of bond issuance	—	—	—
Total expenditures	106,908	516,244	623,152
OTHER FINANCING SOURCES (USES):			
Transfers from Capital Projects Fund (to Debt Service Fund)	116,189	(116,189)	—
Other—Transferable Development Rights installment purchase agreement	(33,333)	—	(33,333)
Total other financing sources (uses)	82,856	(116,189)	(33,333)
Net Change in Fund Balance	(12,767)	(507,800)	(520,567)
Fund Balance—Beginning of period	285,750	1,889,921	2,175,671
Fund Balance—End of period	$272,983	$1,382,121	$1,655,104

See notes to financial statements.

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2007

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
District improvement bonus revenue	$ 57,938	$ —	$ 57,938
Property tax equivalency payment revenue	5,008	—	5,008
Investment income	798	42,459	43,257
Total revenues	63,744	42,459	106,203
EXPENDITURES:			
Project Expenditures—Subway Extension	—	37,553	37,553
Project Expenditures—Land Acquisition and Public Amenities	—	70,964	70,964
Project Expenditures—Transfers to Hudson Yards Development Corporation	—	6,186	6,186
General and administrative	396	—	396
Costs of bond issuance	—	29,904	29,904
Total Expenditures	396	144,607	145,003
OTHER FINANCING SOURCES (USES):			
Transfers from Capital Projects Fund (to Debt Service Fund)	112,771	(112,771)	—
Transfers (from Debt Service Fund) to Capital Projects Fund	(2,000)	2,000	—
Principal amount of bonds issued	—	2,000,000	2,000,000
Bond premium	—	102,840	102,840
Other—Transferable Development Rights installment purchase agreement	102,345	—	102,345
Total other financing sources	213,116	1,992,069	2,205,185
Net Change in Fund Balance	276,464	1,889,921	2,166,385
Fund Balance—Beginning of period	9,286	—	9,286
Fund Balance—End of period	$285,750	$1,889,921	$2,175,671

See notes to financial statements.

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

As of June 30, 2008 and 2007

(amounts in thousands)	2008	2007
FUND BALANCE—Total governmental funds	$ 1,655,104	$ 2,175,671
Amounts reported for governmental activities in the statements of net (deficit) assets are different because:		
Costs of bond issuance are reported as expenditures in the governmental funds financial statements. However, in the statements of net (deficit) assets, the costs of bond issuance are reported as capitalized assets and amortized over the life of the bond.	28,409	29,156
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net (deficit) assets, bond premiums are reported as a component of bonds payable and amortized over the life of the bond.	(97,698)	(100,269)
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 (deficit) assets. Those liabilities are:		
Bonds payable	(2,000,000)	(2,000,000)
Accrued interest payable	(36,833)	(51,458)
Installment payments on Transferable Development Rights	(66,666)	(100,000)
Arbitrage rebate	(10,535)	(3,814)
NET (DEFICIT) ASSETS	$ (528,219)	$ (50,714)

See notes to financial statements.

Reconciliations of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities

For the Years Ended June 30, 2008 and 2007

(amounts in thousands)	2008	2007
NET CHANGE IN TOTAL GOVERNMENTAL FUNDS BALANCE	$(520,567)	$2,166,385
Amount reported for governmental activities in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but bonds issued increases long-term liabilities on the statements of net (deficit) assets.	—	(2,000,000)
Installment purchases of assets held for re-sale provide current financial resources to governmental funds, but the unpaid purchase price increases long-term liabilities on the statements of net (deficit) assets.	33,333	(102,345)
Governmental funds report costs of bond issuance as expenditures. However, on the statements of activities, the cost of bond issuance is amortized over the life of the bond.	(747)	29,156
Governmental funds report bond premiums as other financing sources. However, on the statements of activities, premiums are amortized over the life of the bond.	—	(102,840)
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in governmental funds when the outlay of financial resources is required.	17,197	(46,542)
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 required.	(6,721)	(3,814)
CHANGE IN NET ASSETS	$(477,505)	$ (60,000)

See notes to financial statements.

Notes to Financial Statements

For the Years Ended June 30, 2008 and 2007 (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 to be spearheaded by Hudson Yards Development Corporation ("HYDC") and carried out by existing public entities. The Project is in an area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Twelfth Avenue on the west and West 29th and 30th Streets on the south (the "Project Area"). The Project consists of (1) design and construction of an extension of the No. 7 Subway from its current terminus at 7th Avenue and 41st Street to a new station at 11th Avenue and West 34th Street (the "Subway Extension"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY"), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from the City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five members, all of whom are officials of the City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which HYIC pays a management fee, rent and overhead, based on its allocated share of personnel and other 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") 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 statements of net (deficit) assets and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34, as amended. The statements of net (deficit) assets and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

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 interest on bonds payable, which is recognized when due.

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

HYIC uses two governmental funds for reporting its activities: 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 4, below)—used to pay interest and principal on long-term debt, as well as for all of the administrative operations of HYIC. Fund balance reserved for debt service identifies the portion of fund balance limited only to debt service. The unreserved fund balance may be used, in accordance with the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "Indenture"), for administrative purposes or for debt service. The CPF is used to account for the bond issuances and proceeds, and for project expenditures including the operations of HYDC.

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; 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 as 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 Payments") 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; and

(6) Interest earned on unspent bond proceeds, which is generally used for debt service.

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

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 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.

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, and within 60 days after retirement of the bonds.

During 2008 and 2007, HYIC made no rebate payments, but has estimated its accrued liability to rebate excess earnings to be approximately $10,535 and $3,814 at year end, respectively. The annual arbitrage rebate expense and the liability at year end are reported in the entity-wide financial statements, but are not reported in the fund financial statements as the liability is not expected to be paid out of current resources. It will be reported as an expenditure of the debt service fund in the year it becomes payable to the Federal government.

Bond Premium and Issuance Costs

Bond premium and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The amounts of unamortized bond premium at June 30, 2008 and 2007 are $97,698 and $100,269, respectively, which are net of accumulated amortization of $5,142 and $2,571, respectively. The amounts of unamortized issuance costs at June 30, 2008 and 2007 are $28,409 and $29,156, respectively, which are net of accumulated amortization of $1,495 and $748, respectively.

Use of Estimates

The preparation of consolidated 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.

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Resources

Resources set aside for debt service or for project expenditures in accordance with the Indenture are classified as restricted on the statement of net (deficit) assets. When both restricted and unrestricted resources are available for use, it is HYIC's policy to use restricted resources first, then unrestricted resources as they are needed.

Recent Accounting Pronouncements

HYIC has adopted Statement of Governmental Accounting Standards No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenue* ("GASB No. 48"). GASB No. 48 does not have an impact on HYIC's financial statements.

HYIC has not completed the process of evaluating the impact that will result from adopting Statement of Governmental Accounting Standards No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). HYIC is therefore unable to disclose the impact that adopting GASB No. 53 will have on the financial statements. This statement is effective for fiscal periods beginning after June 15, 2009, which will be for HYIC's fiscal year ending June 30, 2010.

3. DEPOSITS AND INVESTMENTS

HYIC's cash and investments, including investments categorized for reporting purposes as cash equivalents, are maintained in trust accounts in accordance with the terms of the Indenture.

HYIC's cash, including deposits in transit, consisted of the following at June 30, 2008 and 2007:

	June 30, 2008		June 30, 2007	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Unrestricted:				
FDIC insured deposits	$ —	$ —	$ —	$ —
Uninsured and not collateralized	—	—	—	—
Subtotal	—	—	—	—
Restricted for Debt Service:				
FDIC insured deposits	—	—	—	—
Uninsured and not collateralized	1	1	8,901	3,293
Subtotal	1	1	8,901	3,293
Restricted for Capital Projects:				
FDIC insured deposits	—	—	—	—
Uninsured and not collateralized	—	—	—	—
Subtotal	—	—	—	—
Total Deposits	$ 1	$ 1	$8,901	$3,293

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

3. DEPOSITS AND INVESTMENTS (continued)

The uninsured and uncollateralized balance at June 30, 2007 represents DIB payments received by HYIC too late for investment or after the close of business on June 29, 2007 and thus not able to be invested until after year end.

Investments consist of the following at June 30, 2008 and 2007:

	2008	2007
Unrestricted:		
Money Market Funds	$ 115	$ 13
Federal Home Loan Bank discount notes (maturing within 90 days)	—	670
Subtotal	115	683
Restricted for Debt Service:		
Money Market Funds	1,620	—
Federal Home Loan Mortgage Corporation discount notes (maturing within 90 days)	—	12,548
Federal Home Loan Bank discount notes (maturing within 90 days)	—	9,727
Federal National Mortgage Association discount notes (maturing within 90 days)	64,998	46,391
Subtotal	66,618	68,666
Restricted for Capital Projects:		
Money Market Funds	3	3
Repurchase agreements	1,544,859	1,787,760
Federal Home Loan Bank discount notes (maturing within 90 days)	3,008	2,517
Federal National Mortgage Association discount notes (maturing within 90 days)	61,935	99,641
Subtotal	1,609,805	1,889,921
Total Investments	$ 1,676,538	$ 1,959,270

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

Unspent proceeds of HYIC's Senior Revenue Bonds Fiscal 2007 Series A (the "Series 2007A Bonds") are primarily invested in flexible repurchase agreements ("Repurchase Agreements") which guarantee fixed rates of return (ranging from 4.635% to 4.835%) on the daily balances and permit HYIC to withdraw funds for project expenditures as needed, but no later than March 31, 2011. Securities underlying the Repurchase Agreements are limited to obligations of the United States of America with a maturity of ten years or less or to certain senior debt obligations of Government National Mortgage Association, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation rated "AAA" by S&P and "Aaa" by Moody's, with a maturity of ten years or less. Underlying securities are held by a third-party custodian as HYIC's agent and must have a market value of at least 104% of their cost.

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

3. DEPOSITS AND INVESTMENTS (continued)

The fair value of the Repurchase Agreements as of June 30, 2008 reported in the Capital Projects Fund and in the Statement of Net (Deficit) Assets ($1,544,859) reflects the value of the investment contract, including accrued interest ($27,920) adjusted for the fair value of the fixed-interest-rate aspect of the contract ($37,339).

Investments, other than the Repurchase Agreements, are reported at estimated fair value as of the financial statement date.

Credit Risk

All investments held by HYIC at June 30, 2008 and 2007, including those underlying the Repurchase Agreements, are obligations of, or guaranteed by, the United States of America, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association or the Federal Farm Credit System, or are shares of money market funds, and are rated "AAA" or "A-1+" by S&P and "Aaa" or "P-1" by Moody's.

Interest Rate Risk

Over 92% of HYIC's investments at June 30, 2008 are in Repurchase Agreements with guaranteed fixed rates of return. The fair value of the Repurchase Agreements, the terms of which are discussed above, is highly susceptible to changes in market interest rates; however, HYIC does not expect these Repurchase Agreements to terminate. The remainder of HYIC's investments will mature within 90 days after June 30, 2008; for these investments HYIC's risk that changes in interest rates will adversely affect the fair value of investments is very limited.

4. 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 FY 2007, and is required to make three annual payments of $33,333 in September of 2007, 2008 and 2009 for this interest, the first of which was made by HYIC on September 28, 2007. The full value of the TDRs, including the full purchase price and HYIC's cost of funds for payment made to date, is reflected as an asset in HYIC's financial statements (in the debt service fund and in the statements of net (deficit) assets), and the amount due to the MTA is reflected as a long-term liability on the statements of net (deficit) assets (see note 5, below).

5. LONG-TERM DEBT

On December 21, 2006, HYIC issued the Series 2007A Bonds in the amount of $2,000 million. They are the first bonds issued by HYIC and the only bonds issued and outstanding as of June 30, 2008 and 2007. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds.

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

5. LONG-TERM DEBT (continued)

Interest on the Series 2007A Bonds is payable semiannually on February 15 and August 15 beginning on August 15, 2007. Payments of principal on the Series 2007A Bonds will be made by HYIC from revenues and TDR sale proceeds received as a result of development in the Hudson Yards Financing District. Prior to the Conversion Date (discussed in note 2, above), HYIC is not obligated to make any payments of principal on the Series 2007A Bonds prior to maturity unless and until—and to the extent that—HYIC receives revenues and TDR sale proceeds in amounts sufficient to make such payments. After the first call date (February 15, 2017) for the Series 2007A Bonds and prior to the Conversion Date, all revenues remaining after funding expenses and interest must be used to purchase or redeem Series 2007A Bonds (except that, if the City has made ISPs during such fiscal year, then HYIC must first reimburse the City for such ISPs).

The Indenture specifies that a schedule of sinking fund installments must be established for the Series 2007A Bonds no later than the June 30th following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.0%.

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2008 follows:

Series	Balance June 30, 2007	Period Ended June 30, 2008 Additions	Deletions	Balance June 30, 2008	Due Within One Year
Fiscal 2007 Series A	$2,000,000	$ —	$ —	$2,000,000	$ —
Total bonds payable	$2,000,000	$ —	$ —	$2,000,000	$ —
Due to MTA for TDRs	100,000	—	33,333	66,667	33,333
Total changes in Long-term Debt	$2,100,000	$ —	$ 33,333	$2,066,667	$33,333

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2007 follows:

Series	Balance June 30, 2006	Period Ended June 30, 2007 Additions	Deletions	Balance June 30, 2007	Due Within One Year
Fiscal 2007 Series A	$ —	$2,000,000	$ —	$2,000,000	$ —
Total bonds payable	$ —	$2,000,000	$ —	$2,000,000	$ —
Due to MTA for TDRs	—	200,000	100,000	100,000	33,333
Total changes in Long-term Debt	$ —	$2,200,000	$100,000	$2,100,000	$33,333

Notes to Financial Statements (continued)

For the Years Ended June 30, 2008 and 2007 (amounts in thousands, except as noted)

5. LONG-TERM DEBT (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2008, are as follows:

Years Ended June 30,	Principal	Interest	Total
2009	$ —	$ 97,500	$ 97,500
2010	—	97,500	97,500
2011	—	97,500	97,500
2012	—	97,500	97,500
2013	—	97,500	97,500
2014 to 2018	—	487,500	487,500
2019 to 2023	—	487,500	487,500
2024 to 2028	—	487,500	487,500
2029 to 2033	—	487,500	487,500
2034 to 2038	—	487,500	487,500
2039 to 2043	—	487,500	487,500
2044 to 2047	2,000,000	390,000	2,390,000
Totals	$2,000,000	$3,802,500	$5,802,500

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