HYIC Hudson Yards Infrastructure Corporation

A Component Unit of the City of New York

2009 Annual Report

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HYIC MISSION

The Corporation's mission is to lessen the burdens of government for the benefit of the citizens of the City by promoting economic development and growth on the west side of mid-town Manhattan and conduct its activities in a cost-effective and efficient manner. The Corporation works diligently and cooperatively with the Hudson Yards Development Corporation, the Metropolitan Transportation Authority, and the City towards completion of the Project and expects to issue additional indebtedness, subject to the conditions set forth in its indenture, when additional funds are required for the Project.

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, 2009. 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. These ratings remain unchanged. 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. The tunneling is expected to be complete in the second half of 2010.

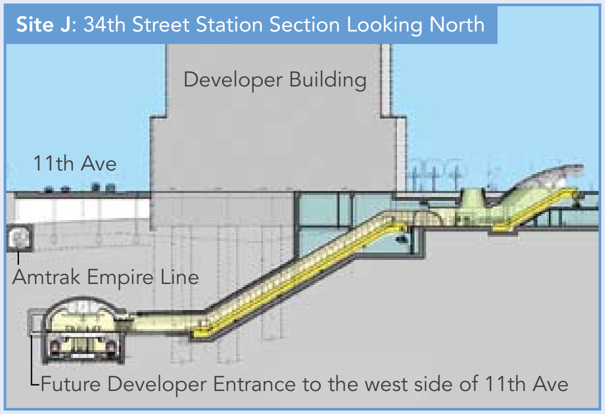
On May 22, 2008, the Board of the MTA designed two affiliated entities of The Related Companies, RG ERY LLC and RG WRY LLC, as the developers of the Eastern Railyard and the Western Railyard, respectively. The MTA entered into a Conditional Designation Letter with each of RG ERY and RG WRY which established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

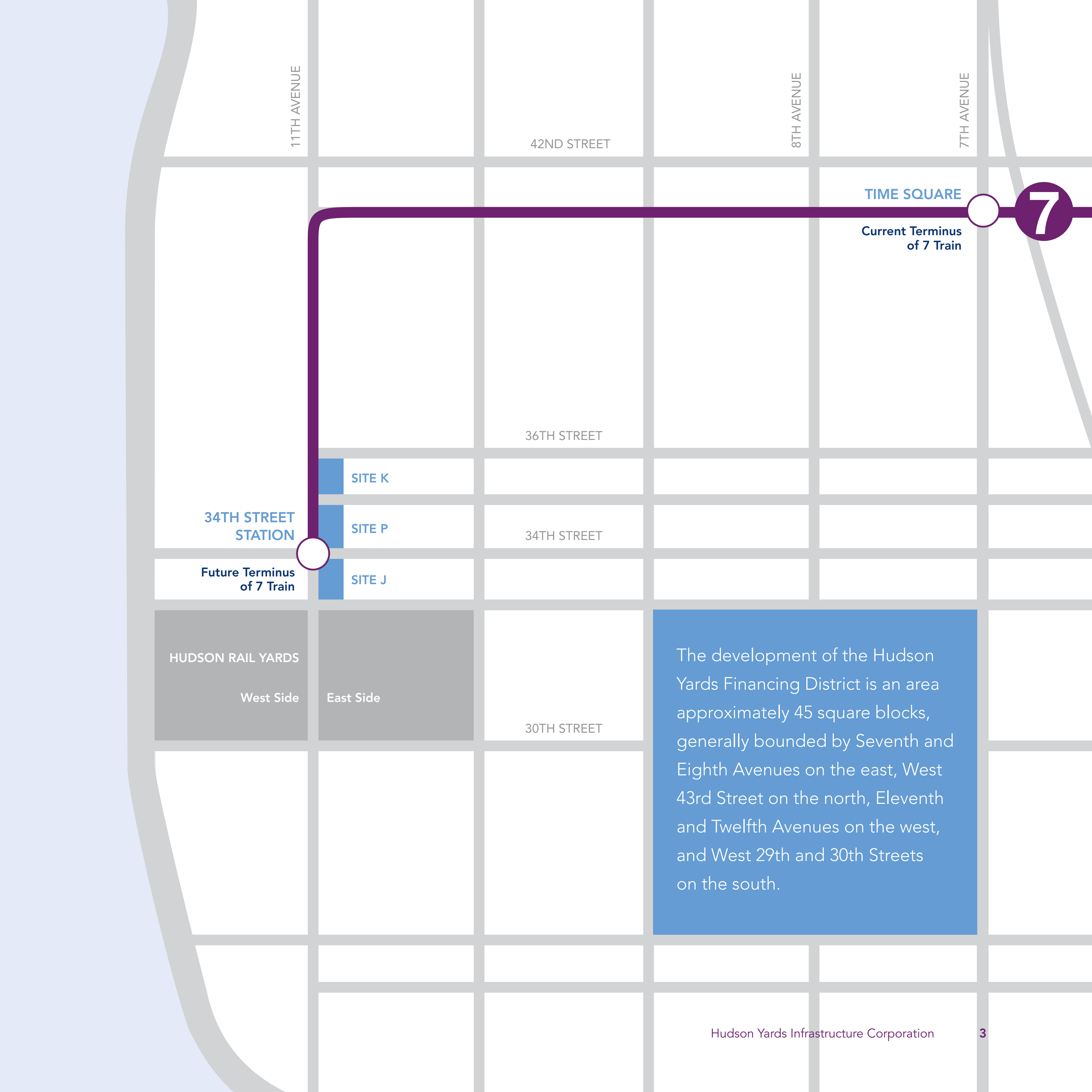
In March 2008, the City released a Request for Proposals to select a design team for Hudson Park and Boulevard. The City expects to award a design contract before the end of 2009.

Alan Anders
President

7 Train Subway Extension

THE PLAN





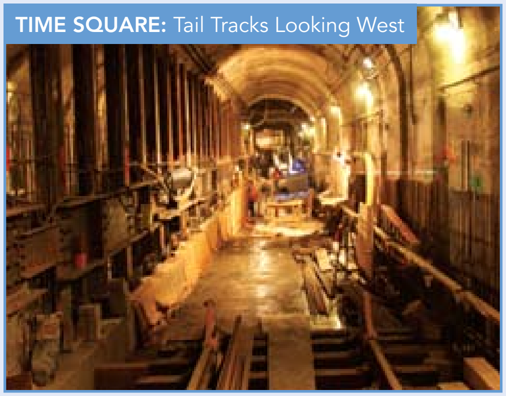
The development of the Hudson Yards Financing District is an area approximately 45 square blocks, generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Eleventh and Twelfth Avenues on the west, and West 29th and 30th Streets on the south.

THE PROGRESS

TBM Substation

SITE P: 34th Street Station Secondary Entrance

TIME SQUARE: Tail Tracks Looking West



CAVERN BENCH: Looking North

SITE J: 34th Street Station Main Entrance

Financial Statements

as of and for the years ended June 30, 2009 and 2008

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.

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Deloitte.

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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, the Debt Service Fund and the Capital Projects Fund 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, 2009 and 2008, which collectively comprise HYIC's basic financial statements 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 the 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 the HYIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, the Debt Service Fund and the Capital Projects Fund of HYIC as of June 30, 2009 and 2008, 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 7 through 14 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.

Deloitte & Touche LLP

September 18, 2009

Member of Deloitte Touche Tohmatsu

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, 2009 and 2008 and for the years then ended. It should be read in conjunction with HYIC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements.

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

The government-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about HYIC as a whole, in accordance with Governmental Accounting Standards Board ("GASB") 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 government-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 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 interest on bonds payable and estimated arbitrage rebate liabilities, which are recognized when due.

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

ORGANIZATIONAL OVERVIEW (continued)

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. The 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 on 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.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

On December 28, 2006, HYIC acquired a 50% interest in TDRs upon making the first $100 million payment required under the terms of the purchase agreement among the City, MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The TDR Agreement requires HYIC to make three additional annual payments in the amount of $33.3 million in September of 2007, 2008 and 2009 for this interest; of which the first two payments were made in accordance with the agreement. 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 assets (deficit)), and the amount due to the MTA is reflected as a long-term liability on the statement of net assets (deficit).

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

The following summarizes the activities of HYIC for the years ended June 30, 2009, 2008 and 2007:

(amounts in thousands)	2009	2008	2007	change 2009 v 2008	change 2008 v 2007
REVENUES:					
Program revenue	$ 12,328	$ 8,613	$ 62,946	$ 3,715	$ (54,333)
Other revenue	72,630	127,305	43,257	(54,675)	84,048
TOTAL REVENUES	84,958	135,918	106,203	(50,960)	29,715
EXPENSES:					
Project	353,259	516,244	114,703	(162,985)	401,541
Bond interest	87,576	89,122	46,542	(1,546)	42,580
Arbitrage rebate	3,389	6,721	3,814	(3,332)	2,907
Other	1,381	1,336	1,144	45	192
TOTAL EXPENSES	445,605	613,423	166,203	(167,818)	447,220
CHANGE IN NET ASSETS (DEFICIT)	(360,647)	(477,505)	(60,000)	116,858	(417,505)
NET ASSETS (DEFICIT)—Beginning of year	(528,219)	(50,714)	9,286	(477,505)	(60,000)
NET (DEFICIT)—End of year	$ (888,866)	$ (528,219)	$ (50,714)	$ (360,647)	$ (477,505)

For fiscal years ended June 30, 2009, 2008 and 2007 program revenue was comprised of DIB and TEP. HYIC recognized approximately $12 million of program revenue in fiscal year 2009 compared to approximately $9 million in fiscal year 2008. The increase was primary due to increased TEP, as new development progressed in the Project Area. Program revenue declined $54 million between fiscal years 2008 and 2007; the decline was primarily due to a decrease in DIBs, as fewer developers submitted applications for additional-density development. Other revenue, mainly comprised of investment earnings, decreased in fiscal year 2009 compared to fiscal year 2008 because as bond proceeds are drawn down to pay project costs, the reduced holdings resulted in lower investment earnings. This is the cause of the decrease in arbitrage rebate expense in fiscal year 2009. 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.

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

During fiscal year 2009, HYIC incurred $353 million in project expenses, compared to $516 million in fiscal year 2008. The decrease in project expenses is attributable to fewer property acquisitions as the majority of the acquisition costs were incurred in fiscal year 2008. Additionally, during 2009 property valuations, which determine the final cost for certain project property acquisitions and which had been previously estimated and accrued, were finalized. In aggregate, the final appraisals were below the values previously estimated, resulting in a negative land acquisition expense for the fiscal year. Project spending increased in fiscal year 2008 compared to fiscal year 2007 as contracts were entered into and work began on the Subway Extension.

Bond interest decreased slightly in fiscal year 2009 compared to fiscal year 2008. HYIC reported $89 million in bond interest in fiscal year 2008 compared to $47 million in fiscal year 2007 because a full year's worth of bond interest was incurred for the first time in fiscal year 2008, resulting in an increase compared to fiscal year 2007 when bonds were outstanding for approximately half of the year.

The following summarizes HYIC's assets, liabilities and net assets (deficit) as of fiscal years June 30, 2009, 2008 and 2007:

(amounts in thousands)	2009	2008	2007	change 2009 v 2008	change 2008 v 2007
ASSETS:					
Non-capital	$ 1,410,209	$ 1,913,347	$ 2,204,865	$ (503,138)	$ (291,518)
TOTAL ASSETS	1,410,209	1,913,347	2,204,865	(503,138)	(291,518)
LIABILITIES:					
Current liabilities	190,024	300,000	84,829	(109,976)	215,171
Long-term liabilities	2,109,051	2,141,566	2,170,750	(32,515)	(29,184)
TOTAL LIABILITIES	2,299,075	2,441,566	2,255,579	(142,491)	185,987
NET ASSETS (DEFICIT):					
Restricted	1,046,889	1,448,800	1,967,493	(401,911)	(518,693)
Unrestricted	(1,935,755)	(1,977,019)	(2,018,207)	41,264	41,188
TOTAL NET (DEFICIT)	$ (888,866)	$ (528,219)	$ (50,714)	$ (360,647)	$ (477,505)

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

Total assets in fiscal year 2009 are lower than fiscal year 2008 and fiscal year 2008 assets are lower than fiscal year 2007 as a result of bond proceeds being drawn-down to pay Project costs, as discussed previously.

Current liabilities were lower at the end of fiscal year 2009 than fiscal year 2008 primarily because project expenses decreased as fewer property acquisitions occurred and final appraisals were performed on the costs incurred for property acquisitions, as discussed previously. Current liabilities were significantly higher at the end of fiscal year 2008 than fiscal year 2007, primarily as a result of Project costs for subway extension and property acquisition that were payable at June 30, 2008. This impact was offset slightly 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 months of interest had accrued between the December 2006 issuance and June 30, 2007 year end.

Long-term liabilities were lower at the end of fiscal year 2009 than fiscal year 2008 and fiscal year 2008 were lower than fiscal year 2007 primarily because the annual installment payments due to the MTA for the long-term liability TDRs were made during fiscal year 2009 and 2008; this impact was partially offset by the increase in the arbitrage rebate liability, as discussed above.

The large negative unrestricted and total net assets balances at June 30, 2009 and 2008 are primarily due to the issuance of bonds that will be repaid from future revenues.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

The following summarizes the changes in DSF balances for the years ended June 30, 2009, 2008 and 2007:

(amounts in thousands)	2009	2008	2007	change 2009 v 2008	change 2008 v 2007
REVENUES:					
Program revenue	$ 12,328	$ 8,613	$ 62,946	$ 3,715	$ (54,333)
Other revenue	16,221	2,672	798	13,549	1,874
TOTAL REVENUES	28,549	11,285	63,744	17,264	(52,459)
EXPENDITURES	90,780	106,908	396	(16,128)	106,512
OTHER FINANCING SOURCES	69,597	82,856	213,116	(13,259)	(130,260)
NET CHANGE IN FUND BALANCE	7,366	(12,767)	276,464	20,133	(289,231)
FUND BALANCE—Beginning of year	272,983	285,750	9,286	(12,767)	276,464
FUND BALANCE—End of year	$ 280,349	$ 272,983	$ 285,750	$ 7,366	$ (12,767)

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

DSF's program revenue was comprised of DIB and TEP. During the year ended June 30, 2009 HYIC recognized $12 million of program revenue compared to $9 million in fiscal year 2008. The increase was primarily due to increased TEP, as new development progresses in the Project Area. The increase in other revenue was attributable to a grant from the City. This grant will be used to pay HYIC's 2010 debt service and is expected to reduce the amount of ISP required from the City during fiscal year 2010. DSF expenditures decreased slightly as bond interest expense was lower as discussed previously.

The decrease in other financing sources in fiscal year 2009 from fiscal year 2008 resulted from the transfer of interest earned on unspent bond proceeds funds to the DSF from the CPF, to be used to pay debt service, in accordance with the terms of the Indenture, which declined by $13 million.

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

The following summarizes the changes in CPF balances for the years ended June 30, 2009, 2008 and 2007:

(amounts in thousands)	2009	2008	2007	change 2009 v 2008	change 2008 v 2007
REVENUES	$ 56,409	$ 124,633	$ 42,459	$ (68,224)	$ 82,174
EXPENDITURES:					
Project	353,259	516,244	114,703	(162,985)	401,541
Other	–	–	29,904	–	(29,904)
TOTAL EXPENDITURES	353,259	516,244	144,607	(162,985)	371,637
OTHER FINANCING SOURCES (USES)	(102,930)	(116,189)	1,992,069	13,259	(2,108,258)
NET CHANGE IN FUND BALANCE	(399,780)	(507,800)	1,889,921	108,020	(2,397,721)
FUND BALANCE—Beginning of year	1,382,121	1,889,921	–	(507,800)	1,889,921
FUND BALANCE—End of year	$ 982,341	$ 1,382,121	$ 1,889,921	$ (399,780)	$ (507,800)

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

CPF revenues, comprised of investment earnings, decreased in fiscal year 2009 compared to fiscal year 2008 because as bond proceeds are drawn-down to pay project costs the reduced holdings resulted in lower investment earnings. Project expenditures in the CPF decreased in fiscal year 2009 compared to fiscal year 2008. Additionally, during 2009 property valuations which determine the final cost for certain project property acquisitions and which had been previously estimated and accrued were finalized. In aggregate, the final appraisals were below the values previously estimated, resulting in a negative land acquisition expense for the fiscal year.

During fiscal year 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 expenditures in the CPF increased in 2008 compared to 2007, as discussed above.

Other financing uses during fiscal years 2009 and 2008 reflected the transfer of interest earnings 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.

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2009, 2008 and 2007:

(amounts in thousands)	2009	2008	2007	change 2009 v 2008	change 2008 v 2007
ASSETS:					
Cash and investments	$ 64,658	$ 66,734	$ 78,250	$ (2,076)	$ (11,516)
Transferable development rights	215,505	208,152	202,345	7,353	5,807
Other	226	247	5,193	(21)	(4,946)
TOTAL ASSETS	$ 280,389	$ 275,133	$ 285,788	$ 5,256	$ (10,655)
LIABILITIES:					
Accrued expenses	$ 40	$ 2,150	$ 38	$ (2,110)	$ 2,112
TOTAL LIABILITIES	40	2,150	38	(2,110)	2,112
FUND BALANCES:					
Reserved	64,548	66,679	77,572	(2,131)	(10,893)
Unreserved	215,801	206,304	208,178	9,497	(1,874)
TOTAL FUND BALANCES	280,349	272,983	285,750	7,366	(12,767)
TOTAL LIABILITIES AND FUND BALANCES	$ 280,389	$ 275,133	$ 285,788	$ 5,256	$ (10,655)

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

DSF assets were slightly higher at the end of fiscal year 2009 compared to 2008, primarily because of the increase in the value of TDRs. The increase in the value of TDRs reflects the 2009 cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold. The fiscal year 2009 liabilities are lower compared to fiscal year 2008 because in fiscal year 2008, HYIC received more TEP then earned from the City, as discussed below.

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 include the receivable balance for a TEP amount due from the City; however as of the end of 2008, HYIC had received more TEP then 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 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, 2009, 2008 and 2007:

(amounts in thousands)	2009	2008	2007	change 2009 v 2008	change 2008 v 2007
ASSETS:					
Cash and investments	$ 1,102,159	$ 1,609,805	$ 1,889,921	$ (507,646)	$ (280,116)
TOTAL ASSETS	$ 1,102,159	$ 1,609,805	$ 1,889,921	$ (507,646)	$ (280,116)
LIABILITIES	$ 119,818	$ 227,684	$ –	(107,866)	227,684
FUND BALANCES:					
Reserved	982,341	1,382,121	1,889,921	(399,780)	(507,800)
TOTAL FUND BALANCES	982,341	1,382,121	1,889,921	(399,780)	(507,800)
TOTAL LIABILITIES AND FUND BALANCES	$ 1,102,159	$ 1,609,805	$ 1,889,921	$ (507,646)	$ (280,116)

CPF cash and investments on hand, as well as the fund balance, at June 30, 2009 and 2008 represent unspent bond proceeds, and the decrease between the years reflects project expenditures made during 2009 and 2008, as discussed previously.

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Statements of Net Assets (Deficit)

As of June 30, 2009 and 2008

(amounts in thousands)	2009	2008
ASSETS:		
Unrestricted cash and cash equivalents	$ 166	$ 115
Restricted cash and cash equivalents	3,635	69,630
Restricted investments	1,163,016	1,606,794
Interest receivable	–	60
Due from Capital Projects Fund	56	–
Other receivables	–	12
Prepaid insurance	170	175
Transferable development rights	215,505	208,152
Unamortized bond issue costs	27,661	28,409
Total assets	1,410,209	1,913,347
LIABILITIES:		
Project costs payable	119,762	227,684
Accrued expenses	40	41
Due to Debt Service Fund	56	–
Tax equivalency overpayment by The City of New York	–	2,109
Arbitrage rebate liability	13,924	10,535
Accrued bond interest payable	36,833	36,833
Long-term debt:		
Portion due within one year	33,333	33,333
Portion due after one year	2,000,000	2,033,333
Unamortized bond premium	95,127	97,698
Total liabilities	2,299,075	2,441,566
NET ASSETS (DEFICIT):		
Restricted for debt service	64,548	66,679
Restricted for capital projects and TDR purchases	982,341	1,382,121
Unrestricted	(1,935,755)	(1,977,019)
Total net (deficit)	$ (888,866)	$ (528,219)

See notes to financial statements.

Statements of Activities

For the years ended June 30, 2009 and 2008

(amounts in thousands)	2009	2008
REVENUES:		
District improvement bonus revenue	$ 4,488	$ 6,930
Tax equivalency payment revenue	7,840	1,683
Grant from The City of New York	15,000	–
Investment income	57,630	127,305
Total revenues	84,958	135,918
EXPENSES:		
Project—subway extension	391,913	248,765
Project—land acquisition and public amenities	(43,868)	264,458
Project—transfer to Hudson Yards Development Corporation	5,214	3,021
Bond interest	87,576	89,122
Arbitrage rebate	3,389	6,721
Amortization of bond issuance costs	748	747
General and administrative	633	589
Total expenses	445,605	613,423
CHANGE IN NET (DEFICIT)	(360,647)	(477,505)
NET (DEFICIT)—Beginning of year	(528,219)	(50,714)
NET (DEFICIT)—End of year	$ (888,866)	$ (528,219)

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2009

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash and cash equivalents	$ 166	$ –	$ 166
Restricted cash and cash equivalents	3,634	1	3,635
Restricted investments	60,858	1,102,158	1,163,016
Due from Capital Projects Fund	56	–	56
Prepaid insurance	170	–	170
Transferable development rights	215,505	–	215,505
Total assets	$ 280,389	$ 1,102,159	$ 1,382,548
LIABILITIES:			
Project costs payable	$ –	$ 119,762	$ 119,762
Accrued expenses	40	–	40
Due to Debt Service Fund	–	56	56
Total liabilities	40	119,818	119,858
FUND BALANCES:			
Reserved for debt service	64,548	–	64,548
Reserved for capital projects	–	982,341	982,341
Unreserved	215,801	–	215,801
Total fund balances	280,349	982,341	1,262,690
Total liabilities and fund balances	$ 280,389	$ 1,102,159	$ 1,382,548

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
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 overpayment by The 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 balances	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.

Reconciliation of Governmental Funds Balance Sheet to Statements of Net Assets (Deficit)

As of June 30, 2009 and 2008

(amounts in thousands)	2009	2008
FUND BALANCE—GOVERNMENTAL FUNDS	$ 1,262,690	$ 1,655,104
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.	27,661	28,409
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(95,127)	(97,698)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements, but are reported in the statements of net assets (deficit). Those liabilities are:		
Bonds payable	(2,000,000)	(2,000,000)
Accrued bond interest payable	(36,833)	(36,833)
Installment payments on transferable development rights	(33,333)	(66,666)
Arbitrage rebate	(13,924)	(10,535)
NET (DEFICIT)—STATEMENT OF NET ASSETS (DEFICIT)	$ (888,866)	$ (528,219)

See notes to financial statements.

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

For the year ended June 30, 2009

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
District improvement bonus revenue	$ 4,488	$ –	$ 4,488
Tax equivalency payment revenue	7,840	–	7,840
Grant from The City of New York	15,000	–	15,000
Investment income	1,221	56,409	57,630
Total revenues	28,549	56,409	84,958
EXPENDITURES:			
Project—subway extension	–	391,913	391,913
Project—land acquisition and public amenities	–	(43,868)	(43,868)
Project—transfers to Hudson Yards Development Corporation	–	5,214	5,214
Interest expense	90,147	–	90,147
General and administrative	633	–	633
Total expenditures	90,780	353,259	444,039
OTHER FINANCING SOURCES (USES):			
Transfers from Capital Projects Fund (to Debt Service Fund)	102,930	(102,930)	–
Other—transferable development rights installment purchase agreement	(33,333)	–	(33,333)
Total other financing sources (uses)	69,597	(102,930)	(33,333)
NET CHANGE IN FUND BALANCES	7,366	(399,780)	(392,414)
FUND BALANCES—Beginning of year	272,983	1,382,121	1,655,104
FUND BALANCES—End of year	$ 280,349	$ 982,341	$ 1,262,690

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
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—subway extension	–	248,765	248,765
Project—land acquisition and public amenities	–	264,458	264,458
Project—transfers to Hudson Yards Development Corporation	–	3,021	3,021
Interest expense	106,319	–	106,319
General and administrative	589	–	589
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 BALANCES	(12,767)	(507,800)	(520,567)
FUND BALANCES—Beginning of year	285,750	1,889,921	2,175,671
FUND BALANCES—End of year	$ 272,983	$ 1,382,121	$ 1,655,104

See notes to financial statements.

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

For the years ended June 30, 2009 and 2008

(amounts in thousands)	2009	2008
NET CHANGE GOVERNMENTAL FUNDS BALANCES—GOVERNMENTAL FUNDS	$ (392,414)	$ (520,567)
Amounts reported for governmental activities in the statements of activities are different because:		
Installment purchases of assets held for re-sale provide current financial resources to governmental funds, but the unpaid purchase price increases long-term debt on the statements of net assets (deficit).	33,333	33,333
Governmental funds report costs of debt issuance as expenditures. However, on the statements of activities, the cost of debt issuance is amortized over the life of the bonds.	(748)	(747)
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.	2,571	17,197
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.	(3,389)	(6,721)
CHANGE IN NET ASSETS (DEFICIT)—STATEMENT OF ACTIVITIES	$ (360,647)	$ (477,505)

See notes to financial statements.

1. ORGANIZATION

Hudson Yards Infrastructure Corporation ("HYIC") is a local development corporation established by The City of New York (the "City") under Article 14 of the Not-for-Profit Corporation Law of the State of New York. HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the "Project"). The HYIC does not engage in development directly, but finances development spearheaded by Hudson Yards Development Corporation ("HYDC") and carried out by existing public entities. The Project is in an area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Twelfth Avenue on the west and West 29th and 30th Streets on the south (the "Project Area"). The Project consists of (1) design and construction of an extension of the No. 7 Subway from its current terminus at 7th Avenue and 41st Street to a new station at 11th Avenue and West 34th Street (the "Subway Extension"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY"), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from the City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by a Board of Directors elected by its five members, all of whom are officials of the City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which HYIC pays a management fee, rent 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") Statement No. 14 *The Financial Reporting Entity*, as amended.

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 Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended. 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.

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, and estimated arbitrage rebate liability which are recognized when due.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

of resources—including Transferable Development Rights (see Note 5, below)—used to pay interest on and principal of 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:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

outstanding debt no later than June 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on bonds issued on December 21, 2006, HYIC will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, or within 60 days after retirement of the bonds.

During fiscal year 2009 and fiscal year 2008, HYIC made no rebate payments, but has estimated its accrued liability to rebate excess earnings to be approximately $13,924 and $10,535 at year end, respectively. The annual arbitrage rebate expense and the liability at year end are reported in the government-wide financial statements, but are not reported in the governmental fund financial statements as the liability is not expected to be paid out of current resources. It will be reported as an expenditure of the 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 government-wide financial statements. The amounts of unamortized bond premium at June 30, 2009 and 2008 are $95,127 and $97,698, respectively which are net of accumulated amortization of $7,713 and $5,142, respectively. The amounts of unamortized issuance costs at June 30, 2009 and 2008 are $27,661 and $28,408, respectively which are net of accumulated amortization of $2,243 and $1,495, 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.

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 assets (deficit). 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

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 new standards which will or may impact HYIC.

- 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"). HYIC has neither sales nor pledges of receivables and future revenues nor intra-entity transfer of assets and future revenues. GASB No. 48 does not have an impact on HYIC's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

- In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement established accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. GASB 49 was effective for financial statements for periods beginning after December 15, 2007, and was thus implemented by the City for its fiscal year ended June 30, 2009. There was no impact on HYIC's financial statements as a result of implementation of GASB 49.
- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 are effective for financial statements for periods beginning after June 15, 2009. HYIC has not completed the process of evaluating GASB 51, but does not expect GASB 51 to have a material impact on its financial statements.
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. The requirements for GASB 53 are effective for financial statements for periods beginning after June 15, 2009. HYIC has not completed the process of evaluating the impact of GASB 53 on its financial statements.
- In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances in the financial statements and requires that governments disclose their fund balance classifications, policies and procedures in the Notes. Fund balances will be classified as nonspendable, restricted, committed, assigned, and/or unassigned, as defined in the Statement. Additionally, GASB 54 refines the definitions of each of the governmental fund types, such as debt service and capital projects funds. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. HYIC has not completed the process of evaluating the impact of GASB 54 on its financial statements, but HYIC's governmental fund financial statement presentation will be impacted by the implementation of GASB 54.

For the years ended June 30, 2009 and 2008 (amounts in thousands, except as noted)

3. CASH AND CASH EQUIVALENTS

As of June 30, 2009, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of a Money Market Treasury Fund. HYIC's cash equivalents consisted of the following at June 30, 2009 and 2008:

	2009	2008
Cash	$ –	$ –
Cash Equivalents (See Note 4)	3,801	1,738
Total Cash and Cash Equivalents	$ 3,801	$ 1,738

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2009 and 2008:

	2009	2008
UNRESTRICTED:		
Money Market Funds	$ 166	$ 115
Total Unrestricted	166	115
RESTRICTED FOR DEBT SERVICE:		
Money Market Funds	3,634	1,620
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	34,441	–
Federal National Mortgage Association discount notes (maturing within one year)	26,417	64,998
Total Restricted for Debt Service	64,492	66,618
RESTRICTED FOR CAPITAL PROJECTS:		
Money Market Funds	1	3
Repurchase agreements	1,073,059	1,544,859
Federal Home Loan Bank discount notes (maturing within 90 days)	–	3,008
Federal National Mortgage Association discount notes (maturing within one year)	29,099	61,935
Total Restricted for Capital Projects	1,102,159	1,609,805
Total Investments including cash equivalents	1,166,817	1,676,538
Less Amounts reported as cash equivalents (See Note 3)	(3,801)	(1,738)
Total Investments	$ 1,163,016	$ 1,674,800

4. INVESTMENTS (continued)

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

Unspent proceeds of HYIC's Senior Revenue Bonds Fiscal 2007 Series A (the "Series 2007A Bonds") 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.

The fair value of the Repurchase Agreements as of June 30, 2009 reported in the Capital Projects Fund and in the Statement of Net Assets of $1,073,059 reflects the value of the underlying investments, including accrued interest of $20,176, and adjusted for the fair value of the fixed-interest-rate aspect of the contract of $34,314.

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

All investments, other than the Repurchase Agreements, are registered and are held by HYIC's agent in HYIC's name.

Credit Risk

All investments held by HYIC at June 30, 2009 and 2008, 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

Approximately 92% of HYIC's investments at June 30, 2009 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 a year after June 30, 2009; for these investments HYIC's risk that changes in interest rates will adversely affect the fair value of investments is very limited.

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 million in fiscal year 2007, and was required to make three more annual payments of $33.3 million in September of 2007, 2008 and 2009 for this interest. The first two payments were made by HYIC during September 2007 and 2008. 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 assets (deficits)), and the amount due to the MTA is reflected as a long-term liability on the statements of net assets (deficits) (see Note 6).

6. LONG-TERM DEBT

On December 21, 2006, HYIC issued the Series 2007A Bonds in the amount of $2 billion. They are the first bonds issued by HYIC and the only bonds issued and outstanding as of June 30, 2009 and 2008. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds.

Interest on the Series 2007A Bonds is payable semiannually on February 15 and August 15 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), 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%.

For the years ended June 30, 2009 and 2008 (amounts in thousands, except as noted)

6. LONG-TERM DEBT (continued)

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2009 follows:

		Period Ended June 30, 2009			
	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due within One Year
SERIES					
Fiscal 2007 Series A	$ 2,000,000	$ –	$ –	$ 2,000,000	$ –
Total bonds payable	$ 2,000,000	$ –	$ –	$ 2,000,000	$ –
Due to MTA for TDR	66,667	–	33,333	33,333	33,333
Total changes in Long-term Debt	$ 2,066,667	$ –	$ 33,333	$ 2,033,333	$ 33,333

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

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

For the years ended June 30, 2009 and 2008 (amounts in thousands, except as noted)

6. LONG-TERM DEBT (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2009, are as follows:

Years Ended June 30,	Principal	Interest	Total
2010	$ –	$ 97,500	$ 97,500
2011	–	97,500	97,500
2012	–	97,500	97,500
2013	–	97,500	97,500
2014	–	97,500	97,500
2015 to 2019	–	487,500	487,500
2020 to 2024	–	487,500	487,500
2025 to 2029	–	487,500	487,500
2030 to 2034	–	487,500	487,500
2035 to 2039	–	487,500	487,500
2040 to 2044	–	487,500	487,500
2045 to 2047	2,000,000	292,500	2,292,500
Total	$ 2,000,000	$ 3,705,000	$ 5,705,000

7. RELATED PARTY TRANSACTIONS

During fiscal year 2009 HYIC invested in Variable Rate Demand Bonds ("VRDBs") issued by the New York City Municipal Water Finance Authority (the "Authority"). The Authority is a discretely presented component unit of the City empowered to issue bonds to finance the cost of the capital investment in the City's water and sewer systems. At the end of June 30, 2009, HYIC did not hold any of the Authority's bonds.

* * * * *

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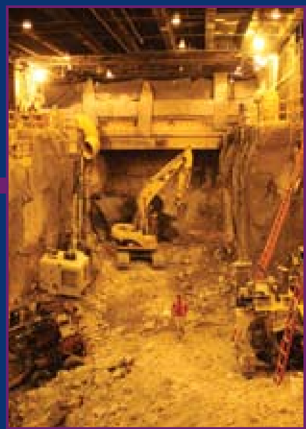

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