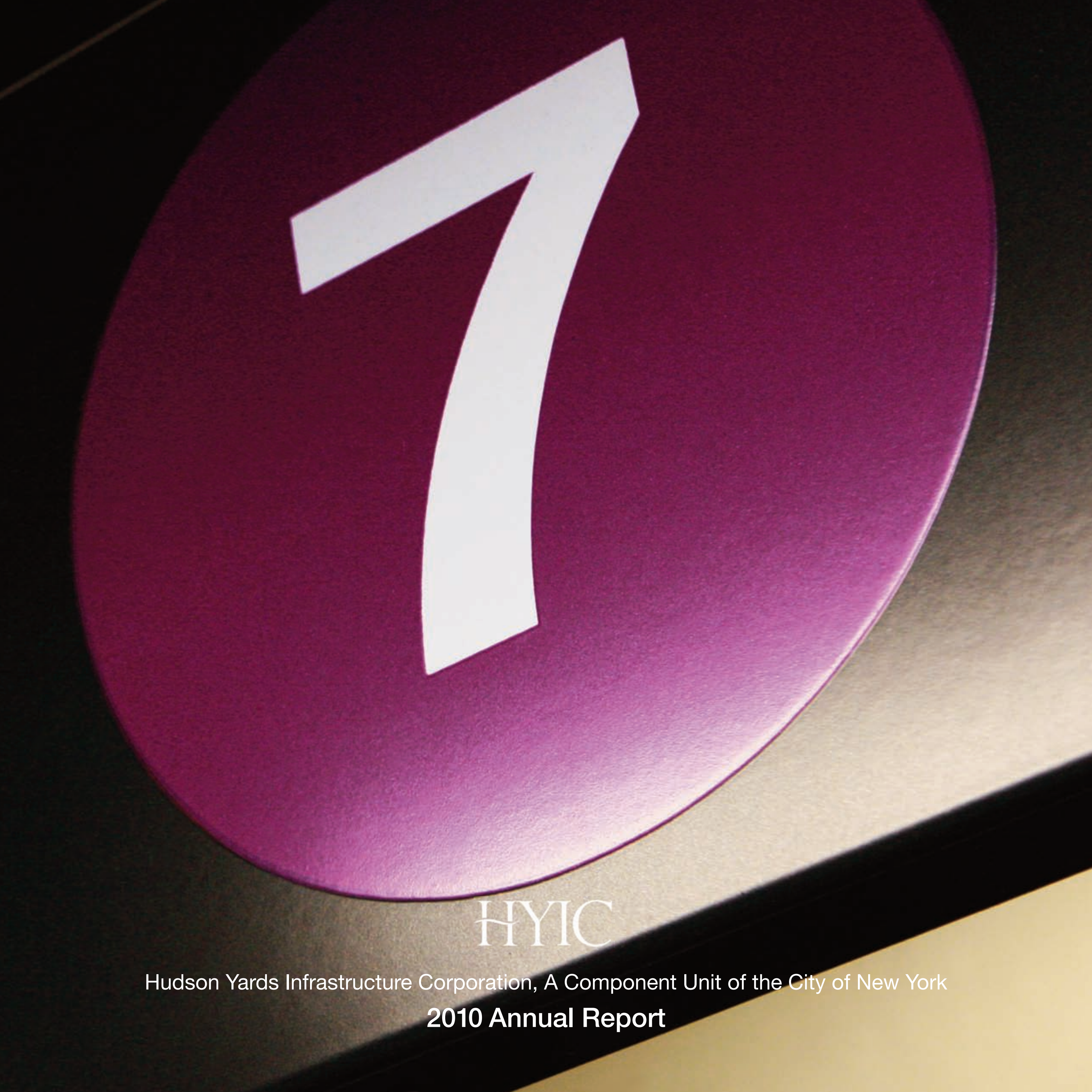

HYIC

Hudson Yards Infrastructure Corporation, A Component Unit of the City of New York

2010 Annual Report

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LETTER FROM THE PRESIDENT

We are pleased to present the annual report for the Hudson Yards Infrastructure Corporation ("HYIC") for the fiscal year ending June 30, 2010. 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.

HYIC 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. In July 2010, the MTA completed the nearly two miles of tunnel mining work for the Number 7 Extension.

Very truly yours,
Alan Anders
President


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Financial Statements

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.

Financial Statements as of and for the years ended June 30, 2010 and 2009


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Deloitte.

Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: + 1 212 436 5000
www.deloitte.com

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, 2010 and 2009, 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 HYIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, the Debt Service Fund, and the Capital Projects Fund of HYIC as of June 30, 2010 and 2009, 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 13 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 17, 2010

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, 2010 and 2009 and for the years then ended. It should be read in conjunction with HYIC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements.

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

The government-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about HYIC as a whole, in accordance with Governmental Accounting Standards Board ("GASB") standards. This is to provide the reader with a broad overview of HYIC's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

HYIC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable and liabilities on arbitrage rebate payable, which are recognized when due.

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

Organizational Overview

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

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

Industrial Development Agency ("IDA"), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements"); (3) Tax Equivalency Payments ("TEP") to be made by The City under the terms of the Agreement, which obligates The City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by The City on new development (including substantial rehabilitation of existing buildings) in the Project Area; (4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area; and (5) payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements. PILOT Agreements are expected to be entered into by developers because the PILOT payments during the first 19 years will be substantially lower than the real estate taxes that would otherwise be due. Interest earned on unspent bond proceeds is generally used for debt service, in accordance with the terms of the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "Indenture").

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

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

Financial Highlights And Overall Analysis—Government-Wide Financial Statements

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

On December 28, 2006, HYIC acquired a 50% interest in TDRs upon making the first $100 million payment required under the terms of the purchase agreement among The City, MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The TDR Agreement required HYIC to make three additional annual payments in the amount of $33.3 million in September of 2007, 2008 and 2009 for this interest; all of which were all 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)). The following summarizes the activities of HYIC for the years ended June 30, 2010, 2009 and 2008:

(amounts in thousands)	2010	2009	2008	Change 2010 vs 2009	Change 2009 vs 2008
Revenues:					
Program revenue	$ 13,318	$ 12,328	$ 8,613	$ 990	$ 3,715
Other revenue	19,960	72,630	127,305	(52,670)	(54,675)
Total revenues	33,278	84,958	135,918	(51,680)	(50,960)
Expenses:					
Project	384,589	353,259	516,244	31,330	(162,985)
Bond Interest	86,030	87,576	89,122	(1,546)	(1,546)
Arbitrage rebate	1,430	3,389	6,721	(1,959)	(3,332)
Other	1,476	1,381	1,336	95	45
Total expenses	473,525	445,605	613,423	27,920	(167,818)
Change in net assets (deficit)	(440,247)	(360,647)	(477,505)	(79,600)	116,858
Net (deficit) – beginning of year	(888,866)	(528,219)	(50,714)	(360,647)	(477,505)
Net (deficit) – end of year	$ (1,329,113)	$ (888,866)	$ (528,219)	$ (440,247)	$ (360,647)

For the fiscal year ended June 30, 2010 program revenue was comprised only of TEP, compared to fiscal years 2009 and 2008 where program revenue was comprised of TEP and DIB. HYIC recognized approximately $13 million of program revenue in fiscal year 2010 compared to approximately $12 million in fiscal year 2009. Although there was an increase of only approximately $1 million, the increase was due to the collection of approximately $5 million more of TEP, as new development progressed in the Project Area. The increase in TEP was substantially offset by the absence of DIB, as there were no applications submitted by developers for additional density development. Program revenue increased by approximately $4 million between fiscal year 2009 and 2008 due to increased TEP.

Other revenue, comprised of investment earnings, decreased significantly in fiscal year 2010 compared to fiscal year 2009 and 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 also caused a decrease in arbitrage rebate expense in fiscal year 2010 and 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.

During fiscal year 2010, HYIC incurred $385 million in project expenses, compared to $353 million in fiscal year 2009. Subway extension expenses decrease by approximately $81 million, which was more than offset by the an increase of approximately $113 million in land acquisition costs. The increase in land acquisition expenses in fiscal year 2010 compared to fiscal year 2009 is primarily the result of accrual of $60 million representing an estimate of the potential future liability attributable to claims asserted in condemnation proceedings (see note 6). Project expenses decrease significantly in fiscal year 2009 compared to fiscal year 2008 due to fewer property acquisitions as the majority of the acquisition costs were incurred in fiscal year 2008. Additionally, during fiscal year 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 fiscal year 2009.

Bond interest decreased slightly in fiscal year 2010 compared to fiscal year 2009. Bond interest expense is offset by the portion attributable to bond proceeds invested in TDRs, which becomes part of the TDRs asset value (see note 5). Specifically, bond interest cost was reduced by $8.9 million in fiscal year 2010 compared to a reduction of $7.4 million in fiscal year 2009, a decrease of bond interest amounting to $1.5 million between the two fiscal years. Bond interest decreased by the same amount and for the same reason in fiscal year 2009 when compared to fiscal year 2008.

The following summarizes HYIC's assets, liabilities and net assets (deficit) as of fiscal years June 30, 2010, 2009 and 2008:

(amounts in thousands)	2010	2009	2008	Change 2010 vs 2009	Change 2009 vs 2008
Assets:					
Non-capital	$ 941,785	$ 1,410,209	$ 1,913,347	$ (468,424)	$ (503,138)
Total assets	941,785	1,410,209	1,913,347	(468,424)	(503,138)
Liabilities:					
Current liabilities	102,660	190,024	300,000	(87,364)	(109,976)
Long-term liabilities	2,168,238	2,109,051	2,141,566	59,187	(32,515)
Total liabilities	2,270,898	2,299,075	2,441,566	(28,177)	(142,491)
Net assets (deficit):					
Restricted	611,655	1,046,889	1,448,800	(435,234)	(401,911)
Unrestricted	(1,940,768)	(1,935,755)	(1,977,019)	(5,013)	41,264
Total net (deficit)	$ (1,329,113)	$ (888,866)	$ (528,219)	$ (440,247)	$ (360,647)

Total assets in fiscal year 2010 are lower than fiscal year 2009 and fiscal year 2009 assets are lower than fiscal year 2008 as a result of bond proceeds being drawn-down to pay Project costs, as discussed previously.

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

Long-term liabilities increase by approximately $59 million from fiscal year 2010 from fiscal year 2009, the increase is due to the recording of an accrual of $60 million related to condemnation claims as previously discussed. Long-term liabilities were lower at the end of fiscal year 2009 than fiscal year 2008 primarily because the final annual installment payments for the long-term liability TDRs became a current liability during fiscal year 2008, this impact was partially offset by the increase in the arbitrage rebate liability, as discussed previously.

The large negative unrestricted and total net assets (deficit) balances at June 30, 2010 and 2009 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, 2010, 2009 and 2008:

(amounts in thousands)	2010	2009	2008	Change 2010 vs 2009	Change 2009 vs 2008
Revenues:					
Program revenue	$ 13,318	$ 12,328	$ 8,613	$ 990	$ 3,715
Other revenue	212	16,221	2,672	(16,009)	13,549
Total Revenues	13,530	28,549	11,285	(15,019)	17,264
Expenditures	89,329	90,780	106,908	(1,451)	(16,128)
Other financing sources	46,141	69,597	82,856	(23,456)	(13,259)
Net change in fund balance	(29,658)	7,366	(12,767)	(37,024)	20,133
Fund balance - beginning of year	280,349	272,983	285,750	7,366	(12,767)
Fund balance - end of year	$ 250,691	$ 280,349	$ 272,983	$ (29,658)	$ 7,366

As previously discussed, for the fiscal year ended June 30, 2010 program revenue was comprised of only TEP compared to fiscal years 2009 and 2008 where program revenue was comprised of TEP and DIB. HYIC recognized approximately $13 million of program revenue in fiscal year 2010 compared to approximately $12 million in fiscal year 2009. Although there was an increase of only approximately $1 million, the increase was due to the collection of approximately $5 million more of TEP, which offset the absence of DIB revenue. Fiscal year 2009 program revenue increased by approximately $4 million compared to fiscal year 2008 due to increased TEP.

The decrease of other revenue in fiscal year 2010 compared to 2009 was attributable to a grant from The City that was received in fiscal year 2009, this grant was used to pay part of HYIC's 2010 debt service, and no similar grant was received in 2010. The increase in other revenue in fiscal year 2009 compared to 2008 was attributable to a grant from The City as discussed. DSF expenditures decreased slightly in fiscal year 2010 compared to fiscal year 2009 as bond interest expense was lower, as discussed previously.

The decrease in other financing sources in fiscal year 2010 compared to fiscal year 2009 and in fiscal year 2009 from fiscal year 2008 resulted from the $23 million and $13 million declines, respectively in interest collected on unspent bond proceeds which are transferred to the DSF from the CPF, to be used to pay debt service, in accordance with the terms of the Indenture.

The following summarizes the changes in CPF balances for the years ended June 30, 2010, 2009 and 2008:

(amounts in thousands)	2010	2009	2008	Change 2010 vs 2009	Change 2009 vs 2008
Revenues	$ 19,748	$ 56,409	$ 124,633	$ (36,661)	$ (68,224)
Expenditures	324,262	353,259	516,244	(28,997)	(162,985)
Other financing sources (uses)	(79,474)	(102,930)	(116,189)	23,456	13,259
Net change in fund balance	(383,988)	(399,780)	(507,800)	15,792	108,020
Fund balance – beginning of year	982,341	1,382,121	1,889,921	(399,780)	(507,800)
Fund balance – end of year	$ 598,353	$ 982,341	$ 1,382,121	$ (383,988)	$ (399,780)

CPF revenues, comprised of investment earnings, decreased in fiscal year 2010 compared to fiscal year 2009 and fiscal year 2009 compared to fiscal year 2008 because as bond proceeds are drawn down to pay project costs the reduced holdings results in lower investment earnings. Project expenditures in the CPF decreased in fiscal year 2010 compared to fiscal year 2009, as previously discussed. During fiscal year 2009, Project expenditures decrease significantly compared to fiscal year 2008, due to fewer property acquisitions. Additionally, during fiscal year 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 fiscal year 2009.

Other financing uses during fiscal years 2010, 2009, and 2008 reflected the transfer of interest collected on unspent bond proceeds from the CPF to the DSF, to be used to pay debt service, in accordance with the terms of the Indenture.

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2010, 2009 and 2008:

(amounts in thousands)	2010	2009	2008	Change 2010 vs 2009	Change 2009 vs 2008
Assets:					
Cash and investments	$ 26,171	$ 64,658	$ 66,734	$ (38,487)	$ (2,076)
Transferable development rights	224,404	215,505	208,152	8,899	7,353
Other	151	226	247	(75)	(21)
Total assets	$ 250,726	$ 280,389	$ 275,133	$ (29,663)	$ 5,256
Liabilities:					
Accrued Expenses	$ 35	$ 40	$ 2,150	$ (5)	$ (2,110)
Total liabilities	35	40	2,150	(5)	(2,110)
Fund Balances:					
Reserved	13,302	64,548	66,679	(51,246)	(2,131)
Unreserved	237,389	215,801	206,304	21,588	9,497
Total fund balances	250,691	280,349	272,983	(29,658)	7,366
Total liabilities and fund balances	$ 250,726	$ 280,389	$ 275,133	$ (29,663)	$ 5,256

DSF total assets were lower at the end of fiscal year 2010 compared to fiscal year 2009, reflecting the declines in cash and investments. The decrease in investment earnings on CPF cash and investments, which is transferred to the DSF to pay debt service, caused the DSF cash and investment holdings at year end to decline. This decline was partially offset by the appreciation of the TDR, reflecting the fiscal year 2010 cost of borrowed funds used to purchase the TDR's, which HYIC is entitled to recover when the TDR's are sold.

DSF assets were slightly higher at the end of fiscal year 2009 compared to fiscal year 2008, primarily because of the increase in the value of TDRs. The increase in the value of TDRs reflects the fiscal year 2009 cost of borrowed funds used to purchase the TDRs. 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.

The following summarizes the CPF assets, liabilities, and fund balances as of June 30, 2010, 2009 and 2008:

(amounts in thousands)	2010	2009	2008	Change 2010 vs 2009	Change 2009 vs 2008
Assets:					
Cash and investments	$ 664,145	$ 1,102,159	$ 1,609,805	$ (438,014)	$ (507,646)
Total assets	$ 664,145	$ 1,102,159	$ 1,609,805	$ (438,014)	$ (507,646)
Liabilities	$ 65,792	$ 119,818	$ 227,684	(54,026)	(107,866)
Fund balances:					
Reserved	598,353	982,341	1,382,121	(383,988)	(399,780)
Total fund balances	598,353	982,341	1,382,121	(383,988)	(399,780)
Total liabilities and fund balances	$ 664,145	$ 1,102,159	$ 1,609,805	$ (438,014)	$ (507,646)

CPF cash and investments on hand, as well as the fund balances, at June 30, 2010, 2009, and 2008 represent unspent bond proceeds, and the decrease between the years reflects project expenditures made during the respective fiscal years, as discussed previously.

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STATEMENTS OF NET ASSETS (DEFICIT)

As of June 30, 2010 and 2009

(amounts in thousands)	2010	2009
Assets:		
Unrestricted cash and cash equivalents	$ 504	$ 166
Restricted cash and cash equivalents	91	3,635
Unrestricted investments	12,365	–
Restricted investments	677,356	1,163,016
Due from Capital Projects Fund	–	56
Prepaid insurance	151	170
Transferable development rights	224,404	215,505
Unamortized bond issue costs	26,914	27,661
Total assets	941,785	1,410,209
Liabilities:		
Project costs payable	65,698	119,762
Accrued expenses	35	40
Payable to HYDC	94	–
Due to Debt Service Fund	–	56
Arbitrage rebate liability	15,355	13,924
Accrued bond interest payable	36,833	36,833
Other payables	60,327	–
Long-term debt:		
Portion due within one year	–	33,333
Portion due after one year	2,000,000	2,000,000
Unamortized bond premium	92,556	95,127
Total liabilities	2,270,898	2,299,075
Net Assets (Deficit):		
Restricted for debt service	13,302	64,548
Restricted for capital projects and TDR purchases	598,353	982,341
Unrestricted	(1,940,768)	(1,935,755)
Total net (deficit)	$ (1,329,113)	$ (888,866)

See notes to financial statements.

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2010 and 2009

(amounts in thousands)	2010	2009
Revenues:		
District improvement bonus revenue	$ –	$ 4,488
Tax equivalency payment revenue	13,318	7,840
Grant from The City of New York	–	15,000
Investment income	19,960	57,630
Total revenues	33,278	84,958
Expenses:		
Project – subway extension	310,280	391,913
Project – land acquisition and public amenities	70,055	(43,868)
Project – transfer to Hudson Yards Development Corporation	4,254	5,214
Bond interest	86,030	87,576
Arbitrage rebate	1,430	3,389
Amortization of bond issuance costs	748	748
General and administrative	728	633
Total expenses	473,525	445,605
Change In Net (Deficit)	(440,247)	(360,647)
Net (Deficit) – Beginning Of Year	(888,866)	(528,219)
Net (Deficit) – End Of Year	$ (1,329,113)	$ (888,866)

See notes to financial statements.

GOVERNMENTAL FUNDS BALANCE SHEET
As of June 30, 2010

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets:			
Unrestricted cash and cash equivalents	$ 504	$ –	$ 504
Restricted cash and cash equivalents	1	90	91
Unrestricted investments	12,365	–	12,365
Restricted investments	13,301	664,055	677,356
Due from Capital Projects Fund	–	–	–
Prepaid insurance	151	–	151
Transferable development rights	224,404	–	224,404
Total assets	$ 250,726	$ 664,145	$ 914,871
Liabilities:			
Project costs payable	$ –	$ 65,698	$ 65,698
Accrued expenses	35	–	35
Payable to HYDC	–	94	94
Total liabilities	35	65,792	65,827
Fund Balances:			
Reserved for debt service	13,302	–	13,302
Reserved for capital projects	–	598,353	598,353
Unreserved	237,389	–	237,389
Total fund balances	250,691	598,353	849,044
Total liabilities and fund balances	$ 250,726	$ 664,145	$ 914,871

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.

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENTS OF NET ASSETS (DEFICIT)

As of June 30, 2010 and 2009

(amounts in thousands)	2010	2009
Fund balance – governmental funds	$ 849,044	$ 1,262,690
Amounts reported for governmental activities in the statements of net assets are different because:		
Costs of bond issuance are reported as expenditures in the governmental funds financial statements. However, in the statements of net assets (deficit), the costs of bond issuance are reported as capitalized assets and amortized over the life of the bonds.	26,914	27,661
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(92,556)	(95,127)
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)
Arbitrage rebate	(15,355)	(13,924)
Contingent liabilities	(60,327)	–
Net (deficit) – statement of net assets (deficit)	$ (1,329,113)	$ (888,866)

See notes to financial statements.

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

For the year ended June 30, 2010

(amounts in thousands)	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
District improvement bonus revenue	$ –	$ –	$ –
Tax equivalency payment revenue	13,318	–	13,318
Grant from The City of New York	–	–	–
Investment income	212	19,748	19,960
Total revenues	13,530	19,748	33,278
Expenditures:			
Project – subway extension	–	310,280	310,280
Project – land acquisition and public amenities	–	9,728	9,728
Project – transfers to Hudson Yards Development Corporation	–	4,254	4,254
Interest expense	88,601	–	88,601
General and administrative	728	–	728
Total expenditures	89,329	324,262	413,591
Other financing sources (uses):			
Transfers (from capital projects fund) to debt service fund	79,474	(79,474)	–
Other - transferable development rights installment purchase agreement	(33,333)	–	(33,333)
Total other financing sources (uses)	46,141	(79,474)	(33,333)
Net Change in Fund Balance	(29,658)	(383,988)	(413,646)
Fund Balances – Beginning of Year	280,349	982,341	1,262,690
Fund Balances – End of Year	$ 250,691	$ 598,353	$ 849,044

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 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 Balance	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.

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES

For the years ended June 30, 2010 and 2009

(amounts in thousands)	2010	2009
Net change governmental funds balances – governmental funds	$ (413,646)	$ (392,414)
Amount 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 bonds payable on the to 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)	(748)
Governmental funds report bond premiums as other financing sources upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	2,571	2,571
Arbitrage earnings rebatable to the Federal government are reported on the statements of activities on an accrual basis, however arbitrage expenditures are reported in governmental funds when the outlay of financial resources is due.	(1,430)	(3,389)
Contingent liabilities are reported on the statement of activities on the accrual basis, however contingent expenditures are reported in the governmental funds when the outlay of financial resources is due.	(60,327)	–
Change in net assets (deficit) – statement of net assets (deficit)	$ (440,247)	$ (360,647)

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 and overhead based on its allocated share of personnel and overhead costs.

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

2. Summary Of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

HYIC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenue is generally considered available if expected to be received within one year after period end. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, and estimated arbitrage rebate liability which are recognized when due.

HYIC uses two governmental funds for reporting its activities: a Debt Service Fund ("DSF") and a Capital Projects Fund ("CPF").

2. Summary Of Significant Accounting Policies

Measurement Focus and Basis of Accounting (continued)

The DSF is used to account for the receipt and disbursement of resources – including Transferable Development Rights (see Note 5, - used to pay interest on and principal of long term debt, 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

2. Summary Of Significant Accounting Policies

Measurement Focus and Basis of Accounting (continued)

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

Arbitrage Rebate

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

`During fiscal years 2010 and 2009, HYIC made no rebate pay ments, but has estimated its accrued liability to rebate excess earnings to be approximately $15,355 and $13,924 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, 2010 and 2009 are $92,556 and $95,127, respectively which are net of accumulated amortization of $10,284 and $7,713, respectively. The amounts of unamortized issuance costs at June 30, 2010 and 2009 are $26,914 and $27,661, respectively, which are net of accumulated amortization of $2,990 and $2,243, respectively.

Use of Estimates

The preparation of financial statements in accordance with US generally accepted accounting principles 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.

(Amounts in thousands, except as noted)

2. Summary Of Significant Accounting Policies

Measurement Focus and Basis of Accounting (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 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 is a discussion of the new standard which will or may impact HYIC.

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, depending on the definitions provided 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 yet completed the process of evaluating the impact of GASB 54 on its financial statements. GASB 54 will not have any financial impact on HYIC but GASB 54 will change HYIC's governmental fund financial statement presentation.

3. Cash And Cash Equivalents

As of June 30, 2010 and 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 deposits at June 30, 2010 and 2009:

	2010	2009
Cash	$ –	$ –
Cash Equivalents (see Note 4)	595	3,801
Total Cash and Cash Equivalents	$ 595	$ 3,801

(Amounts in thousands, except as noted)

4. Investments

HYIC's investments consisted of the following at June 30, 2010 and 2009:

	2010	2009
Unrestricted:		
Money Market Funds	$ 504	$ 166
Federal Home Loan Mortgage Corporation discount notes (maturing after one year)	12,365	–
Total Unrestricted	12,869	166
Restricted for Debt Service		
Money Market Funds	1	3,634
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	–	34,441
Federal National Mortgage Association discount notes (maturing within one year)	13,301	26,417
Total Restricted for Debt Service	13,302	64,492
Restricted for Capital Projects		
Money Market Funds	90	1
Repurchase agreements	664,055	1,073,059
Federal National Mortgage Association discount notes (maturing within one year)	–	29,099
Total Restricted for Capital Project	664,145	1,102,159
Total Investments including cash equivalents	690,316	1,166,817
Less amounts reported as cash equivalents (see Note 3)	(595)	(3,801)
Total Investments	$ 689,721	$ 1,163,016

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.

4. Investments (continued)

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 and monitored 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, 2010, reported in the Capital Projects Fund and in the Statement of Net Assets (Deficit) of $664,055 reflects the value of the underlying investments, including accrued interest of $12,864, and adjusted for the fair value of the fixed-interest-rate aspect of the contract of $15,154.

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, 2010 and 2009, 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 96% of HYIC's investments at June 30, 2010 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, 2010; 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 $100,000 in fiscal year 2007, and was required to make three more annual payments of $33,333 in September of 2007, 2008 and 2009 for this interest of which all the payments were made. The full value of the TDRs, including the full purchase price and HYIC's cost of funds for payment

5. **Transferable Development Rights** (continued)

made to date, is reflected as an asset in the debt service fund and in the statements of net assets (deficits).

6. **Long-Term Liabilities**

Changes in Long-term liabilities

On December 21, 2006, HYIC issued the Series 2007A Bonds in the amount of $2,000,000. They are the first bonds issued by HYIC and the only bonds issued and outstanding as of June 30, 2010 and 2009. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds.

Interest on the Series 2007A Bonds is payable semiannually on February 15 and August 15. Payments of principal on the Series 2007A Bonds will be made by HYIC from revenues and 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%.

(Amounts in thousands, except as noted)

6. **Long-Term Liabilities** (continued)

Changes in Long-term liabilities (continued)

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

Series	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	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 TDR	33,333	–	33,333	–	–
Total changes in Long-term Debt	$ 2,033,333	$ –	$ 33,333	$ 2,000,000	$ –

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

Series	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	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 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

(Amounts in thousands, except as noted)

6. Long-Term Liabilities (continued)

Changes in Long-term liabilities (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2010, are as follows:

Years ended June 30,	Principal	Interest	Total
2011	$ –	$ 97,500	$ 97,500
2012	–	97,500	97,500
2013	–	97,500	97,500
2014	–	97,500	97,500
2015	–	97,500	97,500
2016 to 2020	–	487,500	487,500
2021 to 2025	–	487,500	487,500
2026 to 2030	–	487,500	487,500
2031 to 2035	–	487,500	487,500
2036 to 2040	–	487,500	487,500
2041 to 2045	–	487,500	487,500
2046 to 2047	2,000,000	195,000	2,195,000
Totals	$ 2,000,000	$ 3,607,500	$ 5,607,500

Claims and Litigation

Currently, The City is a defendant in several condemnation proceedings pertaining to the Hudson Yards Project. As of the end of FY 2010, the potential future liability attributable to claims asserted in such condemnation proceedings was estimated to be $60 million, and is reported in HYIC's financial statements for fiscal year 2010. The potential future liability attributable to such claims is HYIC's best estimate as of the end of fiscal year 2010, based upon available information. The estimate may be revised as further information is obtained and as pending cases are litigated or settled. HYIC did not include any potential future liability attributable to such claims in its financial statements for prior fiscal years, because there was insufficient information available to estimate the potential future liability attributable to such claims.

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. There were no such investments in fiscal year 2010.

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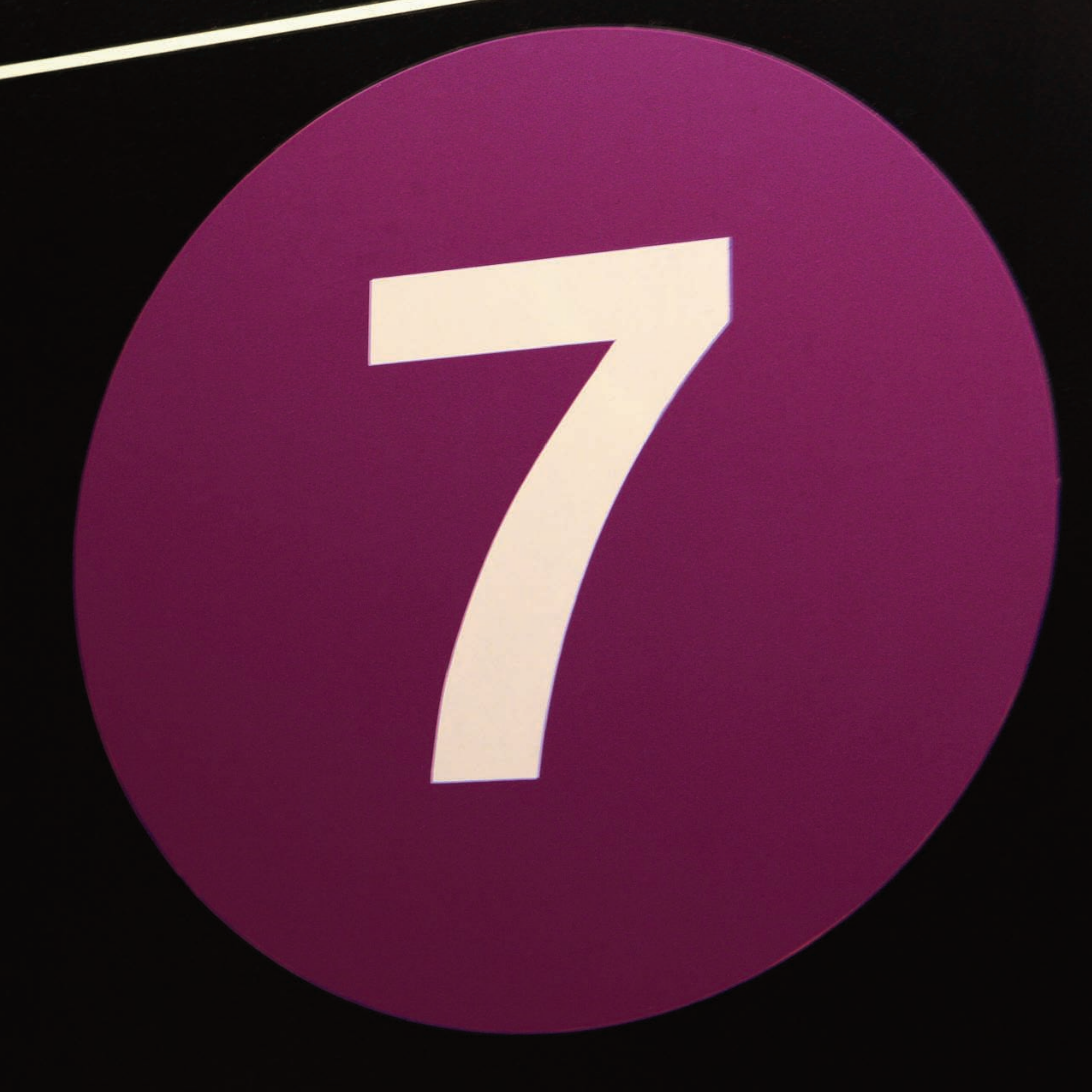
7

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Jeffrey M. Werner
Assistant Secretary

Philip Wasserman
Deputy Treasurer

DIRECTOR OF MEDIA & INVESTOR RELATIONS

Raymond J. Orlando
212.788.5875
orlandor@omb.nyc.gov

75 Park Place New York, New York 10007