HYIC

2014 Annual Report

Hudson Yards Infrastructure Corporation

(A Component Unit of The City of New York)

Table of Contents

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, 2014. 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.

HYIC's operations include 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 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, respectively. After the initial HYIC bond sale in 2006, the credit rating on HYIC bonds was increased by Moody's Investors Service to "A2," and by Fitch, Inc. to "A."

On October 19, 2011, HYIC priced the remaining $1 billion of bonds to complete the project.

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 fund the extension of the No. 7 subway line approximately two miles from its terminus on West 41st Street between Seventh and Eighth Avenues westward under West 41st Street to Eleventh Avenue and then southward to a new terminal station at West 34th Street and Eleventh Avenue.

Construction is being performed by the MTA. As of October 2014, 98% of the work necessary to begin subway "revenue service" was complete. Installation of finishes and systems work, as well as operational testing, make up most of the remaining subway work for "revenue service."

Demolition and design work for Phase 1 of the HYIC-funded Hudson Park and Boulevard, a four-acre system of parks flanked by wide streets through the Project Area, was completed in 2011 and construction began in 2012. As of October 2014, utility and roadwork was 95% complete and park construction was 75% complete. The project is being performed by NYCEDC.

Very truly yours,

Alan Anders
President


7

Financial Statements
Hudson Yards Infrastructure Corporation

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
www.markspaneth.com

Manhattan
Long Island
Westchester
Cayman Islands

MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Hudson Yards Infrastructure Corporation

We have audited the accompanying financial statements of the governmental activities of Hudson Yards Infrastructure Corporation ("HYIC"), a component unit of The City of New York, as of and for the years ended June 30, 2014 and 2013, which collectively comprise HYIC's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Hudson Yards Infrastructure Corporation as of June 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Marks Paneth LLP

New York, NY
September 29, 2014

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, 2014 and 2013 and for the years then ended. It should be read in conjunction with HYIC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the financial statements.

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

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

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

ORGANIZATIONAL OVERVIEW

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

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: (1) Interest Support Payments ("ISP") 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") 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 in Note 5), 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

ORGANIZATIONAL OVERVIEW (continued)

senior bonds and not less than 105% of maximum annual debt service on all outstanding bonds calculated as of the Conversion Date. 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

(amounts in thousands, except as noted)

On December 21, 2006, HYIC issued its Fiscal 2007 Series A Senior Revenue Bonds ("FY07 Bonds") in the amount of $2 billion, to partially finance the Project. The FY07 Bonds are term bonds with semiannual interest payment dates beginning on August 15, 2007 and maturing on February 15, 2047. On October 26, 2011, HYIC issued its Fiscal 2012 Series A Senior Revenue Bonds ("FY12 Bonds") in the amount of $1 billion, to finance the remaining portion of the project. The FY12 Bonds are term bonds with semiannual interest payments beginning on February 15, 2012, and maturing on February 15, 2047. As discussed above, prior to the Conversion Date, HYIC is not obligated to make any payments of principal on the Bonds prior to maturity, unless and until – and to the extent that – HYIC receives revenues in amounts sufficient to make such payments.

In fiscal year 2013, HYIC implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63") and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 63 renamed the Statement of Net Assets (Deficit) to Statement of Net Position, as well as renaming reported Net Assets, and components thereof, to Net Position. GASB 65 resulted in the restatement of HYIC's fiscal year 2012 government-wide financial statements to reflect the recognition of bond issuance costs as an expense in the period incurred. Prior to GASB 65, bond issuance costs were carried on the Statement of Net Assets and amortized over the life of the bonds. Since GASB 65 requires retroactive treatment, all carrying costs and amortization thereof have been excluded pursuant to the requirement and reported as a restatement of beginning net position in fiscal year 2012 (see Note 2 for details of GASB 65 adjustments).

The following summarizes the activities of HYIC for the years ended June 30, 2014, 2013 and 2012:

	2014	2013	(Restated) 2012	Change 2014 vs 2013	Change 2013 vs 2012
Revenues:					
Program revenue	$ 63,253	$ 47,005	$ 30,630	$ 16,248	$ 16,375
Other revenue	41,495	4,894	236,317	36,601	(231,423)
Total revenues	104,748	51,899	266,947	52,849	(215,048)
Expenses:					
Project	268,597	346,278	279,678	(77,681)	66,600
Bond Interest	140,393	140,393	122,624	–	17,769
Arbitrage rebate	–	–	(5,111)	–	5,111
Other	435	458	7,748	(23)	(7,290)
Total expenses	409,425	487,129	404,939	(77,704)	82,190
Change in net position	(304,677)	(435,230)	(137,992)	130,553	(297,238)
Net position (deficit) – beginning of year	(2,286,527)	(1,851,297)	(1,687,139)	(435,230)	(164,158)
Restatement of beginning net position (deficit)	–	–	(26,166)	–	26,166
Net position (deficit) – end of year	$ (2,591,204)	$ (2,286,527)	$ (1,851,297)	$ (304,677)	$ (435,230)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

For fiscal years June 30, 2014, and June 30, 2013, program revenue was comprised of DIB, TEP and PILOMRT. The $16.2 million increase in fiscal year 2014 when compared to fiscal year 2013, was primarily due to the collection of $7.5 million more of DIB, $5.9 million more of TEP, and $2.8 more of PILOMRT as new development continued to progress in the Project Area. The $16.4 million increase in fiscal year 2013 when compared to fiscal year 2012, was primarily due to the collection of $11.1 million in PILOMRT and the collection of $5.0 million more of TEP as new development progressed in the Project Area.

Other revenue in fiscal year 2014 included ISP, a MTA rail yard study cost reimbursement pursuant to a Letter Agreement with the City dated May 25, 2010, and investment earnings. The $36.6 million increase in fiscal year 2014 was due to the collection of $38.1 million in ISP. The increase was offset by $0.9 million less in study cost reimbursement and $0.6 million less in investment earnings.

In fiscal year 2013, other revenue was comprised of a $3.1 million MTA rail yard study cost reimbursement and investment earnings. In fiscal year 2012, other revenue primarily was comprised of a $155.6 million grant from the City and $79.3 million of ISP. The fiscal year 2012 grant from the City was used to pay HYIC's fiscal year 2013 debt service and resulted in no need for an ISP contribution from the City in fiscal year 2013.

Project expenses incurred during fiscal year 2014 were approximately $268.6 million compared to fiscal year 2013, when HYIC incurred approximately $346.3 million. The $77.7 million decrease was due to $150.2 million less in subway extension expenses as the majority of the subway construction work has been completed. The large decrease in subway extension expenses in relation with total Project expenses was offset by a $72.2 million increase in land acquisition costs. In fiscal year 2014, HYIC accrued a $73.9 million contingent liability for condemnation claims. This was a change from fiscal years 2013 and 2012 in that HYIC removed any previously accrued contingent liability for potential additional compensation because, in fiscal year 2012, the claimants' appraisals had been rejected as invalid by the State Supreme Court on the grounds that the claimants' appraisals were based on an erroneous zoning assumption. In fiscal year 2013, the Appellate Division affirmed the trial court's decision. The claimants had indicated that resolution of the zoning issue would resolve their claims. Therefore, without valid claimant appraisals, there was no basis for the City or HYIC to determine if and/or in what amounts additional condemnation compensation may have been payable. However, in fiscal year 2014, the claimants submitted amended appraisals based on the appropriate zoning assumptions, which will be litigated. As such, HYIC estimated and accrued for the potential future liability resulting from such condemnation proceedings (see Note 6).

Bond interest expense increased by $17.8 million in fiscal year 2013 compared to fiscal year 2012 due to the issuance of bonds in October 2011.

Other expenses in fiscal year 2014 were only comprised of general and administrative expenses.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The following summarizes HYIC's assets, liabilities and net position (deficit) as of June 30, 2014, 2013 and 2012:

	2014	2013	(Restated) 2012	Change 2014 vs 2013	Change 2013 vs 2012
Assets:					
Non-capital	$ 693,927	$ 958,542	$ 1,398,421	$ (264,615)	$ (439,879)
Total assets	693,927	958,542	1,398,421	(264,615)	(439,879)
Liabilities:					
Current liabilities	95,757	129,713	130,783	(33,956)	(1,070)
Long-term liabilities	3,187,424	3,115,356	3,118,935	72,068	(3,579)
Total liabilities	3,283,181	3,245,069	3,249,718	38,112	(4,649)
Deferred Inflows of Resources:					
Prepaid PILOT	1 ,950	–	–	1,950	–
Total deferred inflows of resources	1 ,950	–	–	1,950	–
Net position (deficit):					
Restricted	291,447	560,012	906,497	(268,565)	(346,485)
Unrestricted	(2,882,651)	(2,846,539)	(2,757,794)	(36,112)	(88,745)
Total net position (deficit)	$ (2,591,204)	$ (2,286,527)	$ (1,851,297)	$ (304,677)	$ (435,230)

Total assets at June 30, 2014, 2013, and 2012 were lower each year as bond proceeds were drawn-down to pay the Project costs. The capital assets being financed by HYIC are owned by the City; therefore, they do not appear on the financial statements of HYIC.

Current liabilities at June 30, 2014, were lower than fiscal year 2013 because project expenses decreased, as previously discussed.

Long-term liabilities increased in fiscal year 2014 when compared to fiscal year 2013 by $72.1 million because of the estimated accrued contingent liability, as previously discussed.

In fiscal year 2014, HYIC received its first PILOT payment. Since this amount is for assessments owed in fiscal year 2015, the prepaid amount is reported as deferred inflows of resources.

The large negative unrestricted and total net position (deficit) balances at June 30, 2014, 2013 and 2012 were primarily due to the issuance of bonds that will be repaid from future revenues.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

(amounts in thousands, except as noted)

HYIC reports governmental activity using three funds: (1) a general fund ("GF"), (2) a debt service fund ("DSF"), and (3) a capital projects fund ("CPF").

The following summarizes the changes in the GF balances for the years ended June 30, 2014, 2013, and 2012:

	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Revenues:					
Program revenue	$ 788	$ 789	$ 1,068	$ (1)	$ (279)
Other revenue	10	2	31	8	(29)
Total revenues	798	791	1,099	7	(308)
Expenditures	435	458	9,519	(23)	(9,061)
Other financing uses	(363)	(16,698)	(252)	16,335	(16,446)
Net change in fund balances	–	(16,365)	(8,672)	16,365	(7,693)
Fund balance – beginning of year	320	16,685	25,357	(16,365)	(8,672)
Fund balance – end of year	$ 320	$ 320	$ 16,685	$ –	$ (16,365)

The amount of program revenue deposited in the GF was based on the projected administrative and arbitrage rebate expenditures.

In fiscal years 2014 and 2013, there were no arbitrage payments. The large expenditure amount reported during fiscal year 2012 was primarily due to an $8.8 million arbitrage payment to the United States Treasury.

Other financing uses increased in fiscal year 2013 when compared to fiscal year 2012 because after the arbitrage payment of $8.8 million (discussed above), it was determined that the remaining resources held for such purpose were not needed and therefore transferred to the debt service fund in accordance with the Indenture.

The following summarizes the changes in the DSF balances for the years ended June 30, 2014, 2013 and 2012:

	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Revenues:					
Program revenue	$ 62,465	$ 46,216	$ 29,562	$ 16,249	$ 16,654
Other revenue	40,404	3,157	234,939	37,247	(231,782)
Total revenues	102,869	49,373	264,501	53,496	(215,128)
Expenditures	143,848	143,848	105,065	–	38,783
Other financing sources	1,412	18,640	1,261	(17,228)	17,379
Net change in fund balances	(39,567)	(75,835)	160,697	36,268	(236,532)
Fund balance – beginning of year	324,991	400,826	240,129	(75,835)	160,697
Fund balance – end of year	$ 285,424	$ 324,991	$ 400,826	$ (39,567)	$ (75,835)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

For fiscal years June 30, 2014, and June 30, 2013, program revenue was comprised of DIB, TEP and PILOMRT. The $16.2 million increase in fiscal year 2014 when compared to fiscal year 2013, was primarily due to the collection of $7.5 million more of DIB, $5.9 million more of TEP, and $2.8 more of PILOMRT as new development continued to progress in the Project Area. The $16.7 million increase in fiscal year 2013 when compared to fiscal year 2012, was primarily due to the collection of $11.1 million in PILOMRT and the collection of $5.0 million more of TEP as new development progressed in the Project Area.

Other revenue in fiscal year 2014 primarily included ISP and a MTA rail yard study cost reimbursement pursuant to a Letter Agreement with the City dated May 25, 2010. The $37.2 million increase in fiscal year 2014 was due to the collection of $38.1 million in ISP. The increase was offset by $0.9 million less in the study cost reimbursement.

In fiscal year 2013, other revenue was primarily comprised of a $3.1 million MTA rail yard study cost reimbursement. In fiscal year 2012, other revenue was primarily comprised of a $155.6 million grant from the City and $79.3 million of ISP. The fiscal year 2012 grant from the City was used to pay HYIC's fiscal year 2013 debt service and resulted in no need for an ISP contribution from the City in fiscal year 2013, as previously discussed.

The DSF expenditures increased in fiscal year 2013 when compared to fiscal year 2012 due to the issuance of the FY12 Bonds.

The decrease in other financing sources in fiscal year 2014 when compared to fiscal year 2013 was primarily due to the transfer of $16.7 million from the GF of resources not needed for arbitrage, as previously discussed. The increase in other financing sources in fiscal year 2013 when compared to fiscal year 2012 was due to the transfer of $16.7 million from the GF of resources not needed for arbitrage.

The following summarizes the changes in the CPF balances for the years ended June 30, 2014, 2013 and 2012:

	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Revenues	$ 1,081	$ 1,735	$ 1,347	$ (654)	$ 388
Expenditures:					
Project/cost of issuance	193,074	346,402	345,661	(153,328)	741
Total expenditures	193,074	346,402	345,661	(153,328)	741
Other financing sources (uses) net	(1,049)	(1,942)	1,029,918	893	(1,031,860)
Net change in fund balances	(193,042)	(346,609)	685,604	153,567	(1,032,213)
Fund balance – beginning of year	561,365	907,974	222,370	(346,609)	685,604
Fund balance – end of year	$ 368,323	$ 561,365	$ 907,974	$ (193,042)	$ (346,609)

The CPF revenues comprised of interest earnings and decreased in fiscal year 2014 compared to fiscal year 2013 as bond proceeds are drawn down to pay Project expenses, as previously discussed.

Project expenses incurred during fiscal year 2014 were approximately $193.1 million compared to fiscal year 2013 when HYIC incurred approximately $346.4 million. The large decrease was due to $150.2 million less in subway extension expenses as the majority of the subway construction work has been completed.

Other financing uses during fiscal years 2014 and 2013 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. Other financing sources (uses) net, during fiscal year 2012 primarily reflected the bond proceeds from the issuance of the FY12 Bonds.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2014, 2013 and 2012:

	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Assets:					
Cash equivalents and investments	$ 197	$ 196	$ 16,562	$ 1	$ (16,366)
Prepaid Insurance	154	153	151	1	2
Total assets	$ 351	$ 349	$ 16,713	$ 2	$ (16,364)
Liabilities:					
Accounts Payable	$ 31	$ 29	$ 28	$ 2	$ 1
Total liabilities	31	29	28	2	1
Fund Balances:					
Nonspendable prepaid expense	154	153	151	1	2
Assigned to arbitrage payment	–	–	16,365	–	(16,365)
Unassigned	166	167	169	(1)	(2)
Total fund balances	320	320	16,685	–	(16,365)
Total liabilities and fund balances	$ 351	$ 349	$ 16,713	$ 2	$ (16,364)

The GF total assets decreased by $16.4 million in fiscal year 2013, as resources not needed to pay arbitrage liabilities were transferred to the debt service fund, as previously discussed.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

The following summarizes the DSF assets, liabilities, and fund balances as of June 30, 2014, 2013 and 2012:

	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Assets:					
Restricted cash equivalents and investments	$ 25,607	$ 72,392	$ 157,679	$ (46,785)	$ (85,287)
Transferable development rights	261,513	252,235	242,958	9,278	9,277
Due from capital projects fund	254	364	189	(110)	175
Total assets	$ 287,374	$ 324,991	$ 400,826	$ (37,617)	$ (75,835)
Deferred Inflows of Resources:					
Prepaid PILOT	$ 1,950	$ –	$ –	$ 1,950	$ –
Total deferred inflows of resources	$ 1,950	$ –	$ –	$ 1,950	$ –
Fund Balances:					
Restricted	285,424	324,991	400,826	(39,567)	(75,835)
Total fund balances	285,424	324,991	400,826	(39,567)	(75,835)
Total liabilities, deferred inflows of resources and fund balances	$ 287,374	$ 324,991	$ 400,826	$ (37,617)	$ (75,835)

The decrease in the DSF restricted cash equivalents and investments in fiscal year 2014 and fiscal year 2013 was due to use of grant funds deposited in fiscal year 2012 to pay debt service, as previously discussed. As such, the DSF restricted cash equivalents and investments were elevated in fiscal year 2012 due to a $155 million grant from the City.

The TDRs were higher at June 30, 2014 and 2013, because of the increase in the value of the TDRs which accrued during the year. The increased value of the TDRs reflects the addition of cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

In fiscal year 2014, HYIC received its first PILOT payment. Since this amount is for assessments attributable to fiscal year 2015, the prepaid amount is reported as deferred inflows of resources.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

The following summarizes the CPF assets, liabilities, and fund balances as of June 30, 2014, 2013 and 2012:

	2014	2013	2012	Change 2014 vs 2013	Change 2013 vs 2012
Assets:					
Restricted cash equivalents and investments	$ 406,456	$ 633,566	$ 981,071	$ (227,110)	$ (347,505)
Total assets	$ 406,456	$ 633,566	$ 981,071	$ (227,110)	$ (347,505)
Liabilities:					
Project	$ 37,879	$ 71,837	$ 72,908	$ (33,958)	$ (1,071)
Due to debt service fund	254	364	189	(110)	175
Total liabilities	38,133	72,201	73,097	(34,068)	(896)
Fund balances:					
Restricted	368,323	561,365	907,974	(193,042)	(346,609)
Total fund balances	368,323	561,365	907,974	(193,042)	(346,609)
Total liabilities and fund balances	$ 406,456	$ 633,566	$ 981,071	$ (227,110)	$ (347,505)

CPF assets on hand at June 30, 2014, 2013, and 2012 represented unspent bond proceeds. The decrease in fund balances each year reflected Project expenditures made during that year.

The decrease in Project expenditures, as previously discussed, resulted in the decrease of $34.0 million in project liabilities in fiscal year 2014.

This financial report is designed to provide a general overview of HYIC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Investor Relations, Hudson Yards Infrastructure Corporation, 255 Greenwich Street, New York, NY 10007.

*****

Statements of Net Position (Deficit)

As of June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
Assets:		
Unrestricted cash equivalents	$ 197	$ 196
Restricted cash equivalents	104,650	113,529
Restricted investments	327,413	592,429
Prepaid insurance	154	153
Transferable development rights	261,513	252,235
Total assets	693,927	958,542
Liabilities:		
Project cost payable	33,494	60,265
Accrued expenses	31	29
Payable to The City of New York	4,338	11,335
Payable to Hudson Yards Development Corporation	47	204
Payable to New York City Economic Development Corporation	–	33
Accrued bond interest payable	57,847	57,847
Contingent liabilities	76,876	1,353
Long-term debt:		
Portion due after one year	3,000,000	3,000,000
Unamortized bond premium	110,548	114,003
Total liabilities	3,283,181	3,245,069
Deferred inflows of resources:		
Prepaid PILOT	1,950	–
Total deferred inflows of resources	1,950	–
Net position (deficit):		
Restricted for capital projects	291,447	560,012
Unrestricted (deficit)	(2,882,651)	(2,846,539)
Total net position (deficit)	$ (2,591,204)	$ (2,286,527)

See notes to financial statements.

Statements of Activities

For the Years Ended June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
Revenues:		
District improvement bonus revenue	$ 10,827	$ 3,261
Tax equivalency payment revenue	38,553	32,647
PILOMRT revenue	13,873	11,097
Interest support payment revenue	38,130	–
Other revenue	2,206	3,075
Investment income	1,159	1,819
Total revenues	104,748	51,899
Expenses:		
Project - subway extension	175,228	325,414
Project - land acquisition and public amenities	91,136	18,884
Project - transfer to Hudson Yards Development Corporation	2,233	1,980
Bond interest	140,393	140,393
General and administrative	435	458
Total expenses	409,425	487,129
Change in net position	(304,677)	(435,230)
Net position (deficit) – beginning of year	(2,286,527)	(1,851,297)
Net position (deficit) – end of year	$ (2,591,204)	$ (2,286,527)

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2014
(amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets:				
Unrestricted cash equivalents	$ 197	$ –	$ –	$ 197
Restricted cash equivalents	–	25,607	79,043	104,650
Restricted investments	–	–	327,413	327,413
Due from capital projects fund	–	254	–	254
Prepaid insurance	154	–	–	154
Transferable development rights	–	261,513	–	261,513
Total assets	$ 351	$ 287,374	$ 406,456	$ 694,181
Liabilities:				
Project costs payable	–	–	33,494	33,494
Accounts payable	31	–	–	31
Due to debt service fund	–	–	254	254
Payable to The City of New York	–	–	4,338	4,338
Payable to Hudson Yards Development Corporation	–	–	47	47
Total liabilities	31	–	38,133	38,164
Deferred inflows of resources:				
Prepaid PILOT	–	1,950	–	1,950
Total deferred inflows of resources	–	1,950	–	1,950
Fund balances:				
Nonspendable prepaid insurance	154	–	–	154
Restricted for:				
Debt service	–	285,424	–	285,42
Capital projects	–	–	368,323	368,323
Unassigned	166	–	–	166
Total fund balances	320	285,424	368,323	654,067
Total liabilities, deferred inflows of resources and fund balances	$ 351	$ 287,374	$ 406,456	$ 694,181

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2013
(amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Assets:				
Unrestricted cash equivalents	$ 196	$ –	$ –	$ 196
Restricted cash equivalents	–	19,533	93,996	113,529
Restricted investments	–	52,859	539,570	592,429
Due from capital projects fund	–	364	–	364
Prepaid Insurance	153	–	–	153
Transferable development rights	–	252,235	–	252,235
Total assets	$ 349	$ 324,991	$ 633,566	$ 958,906
Liabilities:				
Project costs payable	$ –	$ –	$ 60,265	$ 60,265
Accounts payable	29	–	–	29
Due to debt service fund	–	–	364	364
Payable to The City of New York	–	–	11,335	11,335
Payable to Hudson Yards Development Corporation	–	–	204	204
Payable to New York City Economic Development Corporation	–	–	33	33
Total liabilities	29	–	72,201	72,230
Fund balances:				
Nonspendable prepaid insurance	153	–	–	153
Restricted for:				
Debt service	–	324,991	–	324,991
Capital projects	–	–	561,365	561,365
Unassigned	167	–	–	167
Total fund balances	320	324,991	561,365	886,676
Total liabilities and fund balances	$ 349	$ 324,991	$ 633,566	$ 958,906

See notes to financial statements.

Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Position (Deficit)

As of June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
Total fund balances - governmental funds	$ 654,067	$ 886,676
Amounts reported for governmental activities in the statements of net position (deficit) are different because:		
Bond premiums are reported as other financing sources in the governmental funds financial statements when received. However, in the statements of net position (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(110,548)	(114,003)
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 position (deficit). Those liabilities are:		
Bonds payable	(3,000,000)	(3,000,000)
Accrued bond interest payable	(57,847)	(57,847)
Contingent liabilities	(76,876)	(1,353)
Net position (deficit) – governmental activities	$ (2,591,204)	$ (2,286,527)

See notes to financial statements.

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

For the Year Ended June 30, 2014 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
District improvement bonus revenue	$ –	$ 10,827	$ –	$ 10,827
Tax equivalency payment revenue	788	37,765	–	38,553
PILOMRT revenue	–	13,873	–	13,873
Interest support payment revenue	–	38,130	–	38,130
Other revenue	10	2,196	-	2,206
Investment income	–	78	1,081	1,159
Total revenues	798	102,869	1,081	104,748
Expenditures:				
Project – subway extension	–	–	175,228	175,228
Project – land acquisition and public amenities	–	–	15,613	15,613
Project – transfers to Hudson Yards Development Corporation	–	–	2,233	2,233
Bond interest	–	143,848	–	143,848
General and administrative	435	–	–	435
Total expenditures	435	143,848	193,074	337,357
Other financing sources (uses):				
Transfers (from capital projects fund) to debt service fund	–	1,049	(1,049)	–
Transfer (from general fund) to debt service fund	(363)	363	–	–
Total other financing sources (uses)	(363)	1,412	(1,049)	–
Net change in fund balances	–	(39,567)	(193,042)	(232,609)
Fund balances – Beginning of year	320	324,991	561,365	886,676
Fund balances – End of year	$ 320	$ 285,424	$ 368,323	$ 654,067

See notes to financial statements.

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

For the Year Ended June 30, 2013 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
District improvement bonus revenue	$ –	$ 3,261	$ –	$ 3,261
Tax equivalency payment revenue	789	31,858	–	32,647
PILOMRT revenue	–	11,097	–	11,097
Other revenue	–	3,075	-	3,075
Investment income	2	82	1,735	1,819
Total revenues	791	49,373	1,735	51,899
Expenditures:				
Project – subway extension	–	–	325,414	325,414
Project – land acquisition and public amenities	–	–	19,008	19,008
Project – transfers to Hudson Yards Development	–	–	1,980	1,980
Bond interest	–	143,848	–	143,848
General and administrative	458	–	–	458
Total expenditures	458	143,848	346,402	490,708
Other financing sources (uses):				
Transfers (from capital projects fund) to debt service fund	–	1,942	(1,942)	–
Transfer (from general fund) to debt service fund	(16,698)	16,698	–	–
Total other financing sources (uses)	(16,698)	18,640	(1,942)	–
Net change in fund balances	(16,365)	(75,838)	(346,609)	(438,809)
Fund balances – Beginning of year	16,685	400,826	907,974	1,325,485
Fund balances – End of year	$ 320	$ 324,991	$ 561,365	$ 886,676

See notes to financial statements.

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

For the Years Ended June 30, 2014 and 2013
(amounts in thousands)

	2014	2013
Net change in fund balances – total governmental funds	$ (232,609)	$ (438,809)
Amounts reported in the statements of activities are different because:		
Governmental funds financial statements report bond premiums as other financing source upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	3,455	3,455
Contingent liabilities are reported on the statements of activities on the accrual basis. However, contingent expenditures are reported in the governmental funds financial statements when the outlay of current financial resources is paid.	(75,523)	124
Change in net position (deficit) – governmental activities	$ (304,677)	$ (435,230)

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 drectly, 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 the Board of Directors elected by its five members, all of whom are officials of the City. HYIC's Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which HYIC pays a management fee and overhead based on its allocated share of personnel and overhead costs.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The government-wide financial statements of HYIC, which include the statements of net position (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The statements of net position (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of cash flows.

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

HYIC uses three governmental funds for reporting its activities: a General Fund ("GF"), a Debt Service Fund ("DSF") and a Capital Projects Fund ("CPF"). The DSF is used to account for the receipt and disbursement of resources – including Transferable Development Rights (see Note 5) - used to pay interest on and principal of long term debt. The CPF is used to account for the bond issuances and proceeds and for project expenditures. The GF is used to account for all financial resources not accounted for in the DSF or the CPF, generally those used or held for use for administrative expenditures and arbitrage rebate expenditures. HYIC accounts for the activities in the GF in accordance with the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "Indenture").

Fund Balance

Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with governmental accounting standards.

Fund balance that cannot be spent because it is not in spendable form is defined as nonspendable. Resources constrained for debt service or redemption in accordance with HYIC's Trust Indenture, dated October 1, 2006 (the "Indenture") are classified as restricted on the statements of net position (deficit) and the governmental funds balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Board of Directors of HYIC ("Board") constitutes HYIC's highest level of decision-making authority. If and when resolutions are adopted by the Board that constrain fund balances for a specific purpose are accounted for and reported as committed for such purpose unless, and until, a subsequent resolution altering the commitment is adopted by the Board.

Fund balances, if and when constrained for use for a specific purpose based on the direction of any officer of HYIC duly authorized under its bond indenture to direct the movement of such funds, are accounted for and reported as assigned for such purpose. This assignment will remain, unless and until a subsequent authorized action by the same or another duly authorized officer, or by the Board, is taken which removes or changes the assignment.

When both restricted and unrestricted resources are available for use for a specific purpose, it is HYIC's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is HYIC's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

Resources constrained for debt service or redemption in accordance with HYIC's Indenture are classified as restricted on the statements of net position (deficit) and the governmental funds balance sheets.

Cash Equivalents

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

Capital Assets

HYIC will not be the owner of the Project assets that are constructed or acquired, as those assets become the property of the City. Therefore, HYIC reports no infrastructure assets or construction work in progress.

For fixed assets used in the operations of HYIC, HYIC's policy is to capitalize the purchase or construction costs of assets having a minimum useful life of five years and having a cost of more than $35 thousand. No such assets have been acquired or constructed.

Revenues

HYIC revenues include and will include:

(1) Interest Support Payments ("ISP") are 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") are made by the City under the terms of the Agreement that obligates the City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by the City on new development (including substantial rehabilitation of existing buildings) in the Project Area;

(4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area;

(5) Payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements;

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

(7) Grants from the City. Such grants are recognized as revenue upon receipt.

The Conversion Date is the date on which HYIC certifies that, for each of the two preceding fiscal years, HYIC's PILOT payments plus TEP revenues, less HYIC's operating expenses, ("Net Recurring Revenues") were not less than 125% of the maximum annual debt service on all then-outstanding senior bonds and not less than 105% of maximum annual debt service on all outstanding bonds calculated as of the Conversion Date. 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, after financing interest on senior and subordinate bonds for the subsequent fiscal year, except that, if, during such fiscal year, the City

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and October 26, 2011, 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.

Bond Premium and Issuance Costs

Bond premium is capitalized and amortized over the lives of the related debt using the interest method in the government-wide financial statements. With the implementation of GASB 65 (discussed below) bond issuance costs are recognized as expenses in the period incurred. The amounts of unamortized bond premium at June 30, 2014 and 2013 were $110.5 million and $114.0 million, respectively, which were net of accumulated amortization of $23.2 million and $19.8 million, respectively.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires HYIC's management to make estimates and assumptions in determining the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

As a component unit of the City, HYIC implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the standards requiring implementation in the current year and standards which may impact HYIC in future years.

- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 established accounting and reporting standards that reclassify certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items currently being reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term "deferred" in the financial statement presentation. In fiscal year 2013, HYIC implemented GASB 65, which caused HYIC to retroactively recognize costs of issuance as outflows of resources and restate its fiscal year 2012 government-wide financial statements by eliminating any carrying amounts of bond issuance costs and related amortization of such costs. As a result, HYIC reduced its fiscal year 2012 beginning net position by $26.2 million as follows: 1) excluding the previously reported fiscal year 2012 carrying value of $32.3 million of unamortized bond issuance costs on its Statements of Net Position, 2) excluding the $1.0 million of previously reported amortization of bond issuance costs in fiscal year 2012 on its Statements of Activities, 3) and recognizing $7.1 million of issuance cost from its 2012 Series A bonds as an outflow of resources (expenses) in fiscal year 2012.

- In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions, and Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,1989 FASB and AICPA Pronouncements.* The provisions of GASB 66 are effective for financial statement periods beginning after December 15, 2012. The adoption of GASB 66 did not have an impact on HYIC's financial statements.

- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). GASB 67 establishes financial reporting standards for defined benefit pensions and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013, but were adopted by HYIC in the current year. The adoption of GASB 67 did not have an impact on HYIC's financial statements as it is not applicable pension–administered entity.

(amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014, but were adopted by HYIC in the current year. The adoption of GASB 68 did not have an impact on HYIC's financial statements as it has no employees or pension system.

- In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"). GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 is effective for financial statement periods beginning after December 15, 2013, but were adopted by HYIC in the current year. The adoption GASB 69 did not have an impact on HYIC's financial statements as it has no disposals of operations.

- In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 is effective for financial statement periods beginning after June 15, 2013. The adoption of GASB 70 did not have an impact on HYIC's financial statements as it has no nonexchange transactions.

- In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* ("GASB 71"). GASB 71 eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing Statement No. 68, *Accounting and Financial Reporting for Pensions.* The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014, but were adopted by HYIC in the current year. The adoption of GASB 71 did not have an impact on HYIC's financial statements as it has no employees or pension system.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2014 and 2013, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of U.S. Treasury Money Market Funds and commercial paper maturing within 90 days, primarily restricted for capital projects. HYIC's cash and cash equivalents consisted of the following at June 30, 2014 and 2013:

	2014	2013
Cash	$ –	$ –
Cash Equivalents (see Note 4)	104,847	113,725
Total Cash and Cash Equivalents	$ 104,847	$ 113,725

(amounts in thousands, except as noted)

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2014 and 2013:

	2014	2013
Unrestricted:		
U.S. Treasury Money Market Funds	$ 197	$ 196
Total Unrestricted	197	196
Restricted for Debt Service:		
U.S. Treasury Money Market Funds	25,607	731
Federal Home Loan Bank discount notes (maturing within one year)	–	18,802
Federal National Mortgage Association discount note (maturing within one year)	–	17,954
Federal National Mortgage Association medium term note (maturing within one year)	–	34,904
Total Restricted for Debt Service	25,607	72,391
Restricted for Capital Projects:		
U.S. Treasury Money Market Funds	38,278	93,996
Commercial Paper (maturing within 90 days)	40,765	–
Commercial Paper (maturing after 90 days)	320,027	426,011
Federal Farm Credit Bank Bond (maturing after one year)	–	13,640
Federal Home Loan Mortgage Corporation medium term note (maturing after one year)	2,400	–
U.S. Treasury Bills (maturing within one year)	–	49,992
U.S. Treasury Bills (maturing after one year)	–	49,928
U.S. Treasury Note (maturing after one year)	4,986	–
Total Restricted for Capital Project	406,456	633,567
Total Investments including cash equivalents	432,260	706,154
Less amounts reported as cash equivalents (see Note 3)	(104,847)	(113,725)
Total Investments	$ 327,413	$ 592,429

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. Investments are reported at fair value using market prices in an active market as of the financial statement date.

Custodial Credit Risk

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

Credit Risk

All investments held by HYIC at June 30, 2014 and 2013 are obligations of, or guaranteed by, the United States of America; or are invested in Federal National Mortgage Association securities, and/or Federal Home Loan Mortgage Corporation, and/or Federal Farm Credit Bank, which are rated by S&P AA+, Moody Aaa, and Fitch AAA; and Federal Home Loan Bank securities, which is rated by S&P AA+ and Moodys Aaa; money market funds which are rated by S&P AAA and Moodys Aaa; and commercial paper that is rated in the highest category by at least two rating agencies.

Interest Rate Risk

HYIC's short term maturities are subject to minimal risk of fair value declines due to changes in market interest rates. Investments with longer terms are expected to be held until maturity thereby limiting the exposure from rising interest rates.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of HYIC's investments in a single issuer (5% or more). HYIC's investment policy places no limits on the amount HYIC may invest in any one issuer of eligible investments as defined in the Indenture. As of June 30, 2014, HYIC's investments are in eligible government obligations and commercial paper. These are 17% and 83% of HYIC total investments, respectively.

5. TRANSFERABLE DEVELOPMENT RIGHTS

HYIC acquired a 50% interest in Eastern Rail Yards Transferable Development Rights ("TDRs") for the purpose of resale, under an agreement among the City, the MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The purchase by developers of TDRs will permit the construction of buildings of larger size than would otherwise be permissible as-of-right under applicable zoning law. Proceeds received by HYIC for sales of the TDRs, up to the amount of HYIC's investment (including the $200 million total purchase price and interest costs thereon) will be used by HYIC to support its operations and service its debt. Under the terms of the TDR Agreement, HYIC made the initial installment payment of $100 million in fiscal year 2007, and was required to make three more annual payments of $33 million in September of 2007, 2008 and 2009 for this interest of which all the payments were made. The full value of the TDRs, including, the full purchase price and HYIC's cost of funds, is reflected as an asset in the governmental funds balance sheets and in the statements of net position (deficit).

6. LONG-TERM LIABILITIES

Changes in Long-term Liabilities

On December 21, 2006, HYIC issued the Series 2007A Bonds in the amount of $2 billion to partially finance the Project. The series 2007A bonds are term bonds with semiannual interest payment dates beginning on August 15, 2007 and maturing on February 15, 2047. On October 26, 2011, HYIC issued its Fiscal 2012 Series A Senior Revenue Bonds in the amount of $1 billion. HYIC has pledged all revenues and its proceeds from sales of TDRs to secure the bonds to finance the remaining portion of the Project.The Series 2012A bonds are term bonds with semiannual interest payments beginning on February 15, 2012 and maturing on February 15, 2047.

Interest on the Series 2007A Bonds and Series 2012A Bonds is payable semiannually on February 15 and August 15. Payments of principal on the Series 2007A Bonds and the Series 2012A Bonds will be made by HYIC from revenues and TDRs sale proceeds received as a result of development in the Hudson Yards Financing District. Prior to the Conversion Date (discussed in Note 2), HYIC is not obligated to make any payments of principal on the bonds prior to maturity unless and until – and to the extent that – HYIC receives revenues and TDRs sale proceeds in amounts sufficient to make such payments. After the first call date (February 15, 2017) for the bonds and prior to the Conversion Date, all revenues remaining after funding expenses and interest must be used to purchase or redeem Series bonds after funding interest on senior and subordinate

(amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

bonds for the subsequent fiscal year (except that, if the City has made ISPs during such fiscal year, then HYIC must first reimburse the City for such ISPs). The Indenture specifies that a schedule of sinking fund installments must be established for the bonds no later than the June 30th following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.75%.

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2014 follows:

Year Ended June 30, 2014

Series	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Fiscal 2007 Series A	$ 2,000,000	$ –	$ –	$ 2,000,000	$ –
Fiscal 2012 Series A	1,000,000	–	–	1,000,000	–
Total Long–term Debt	$ 3,000,000	$ –	$ –	$ 3,000,000	$ –

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2013 follows:

Year Ended June 30, 2013

Series	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Fiscal 2007 Series A	$ 2,000,000	$ –	$ –	$ 2,000,000	$ –
Fiscal 2012 Series A	1,000,000	–	–	1,000,000	–
Total Long–term Debt	$ 3,000,000	$ –	$ –	$ 3,000,000	$ –

Debt service requirements on bonds, including principal and interest, at June 30, 2014, are as follows:

Years Ended June 30,	Principal	Interest	Total
2015	$ –	$ 153,125	$ 153,125
2016	–	153,125	153,125
2017	–	153,125	153,125
2018	–	153,125	153,125
2019	–	153,125	153,125
2020 to 2024	–	765,625	765,625
2025 to 2029	–	765,625	765,625
2030 to 2034	–	765,625	765,625
2035 to 2039	–	765,625	765,625
2040 to 2044	–	765,625	765,625
2045 to 2047	3,000,000	306,250	3,306,250
Totals	$ 3,000,000	$ 4,900,000	$ 7,900,000

6. LONG-TERM LIABILITIES (continued)

Claims and Litigation

During fiscal year 2010, the City began receiving appraisals from claimants with pending claims for additional compensation for the City's acquisitions of their interests within the Project Area. Although the City is the condemnor of property interest for the Project, the Corporation is responsible for funding any payments ultimately determined to be payable on such claims. The potential future liability attributable to claims asserted in such condemnation proceedings was estimated to be $60 million, which was HYIC's best estimate as of the end of fiscal years 2011 and 2010, based upon available information. In September 2011 (fiscal year 2012), the New York State Supreme Court (the "Court") issued a determination that the Claimants' appraisals had relied upon an erroneous zoning assumption. The Claimants appealed the Court's determination to the Appellate Division, First Department, which, in May 2013, affirmed the lower court's decision. As of the fiscal years ending June 30, 2013 and 2012, the Claimants did not submit amended appraisals. In view of the aforesaid determination by the Courts rejecting the Claimants' appraisals, the Corporation's potential liability as of June 30, 2013 and 2012, if any, with respect to these claims was not estimable and as such any accrued estimated liabilities were removed from HYIC's financials records.

In June 2014, the Claimants served amended appraisals to the City based on the appropriate zoning assumptions for the majority of the properties and the City has been informed that balance of amended appraisals for the remaining properties will be submitted in fiscal year 2015. In view of these events and based on a range of typical outcomes of prior City condemnation cases, it may be reasonable to assume that certain of the Project condemnation claims may result in awards greater or less than 150 percent of the City's appraised values. As such, the contingent liability is estimated at the lesser of the new appraised value or 50 percent of the City's appraised value, plus 6 percent simple interest from the date of the condemnation. As of June 30, 2014 the estimated contingent liability is approximately $73.9 million.

In addition, as of June 30, 2014, other claimants, who were not a party to the above proceedings, filed suit related to valuations as part of condemnation proceedings. As such, an accrual of approximately $3.0 million and $1.4 million has been recorded as of June 30, 2014 and 2013, respectively, until such time that a determination is made with regards to the claims. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

* * * * *

Hudson Yards Infrastructure Corporation

INVESTOR CONTACT:

Scott Nemecek
NemecekS@omb.nyc.gov
212.788.6499

255 Greenwich Street, New York, NY 10007