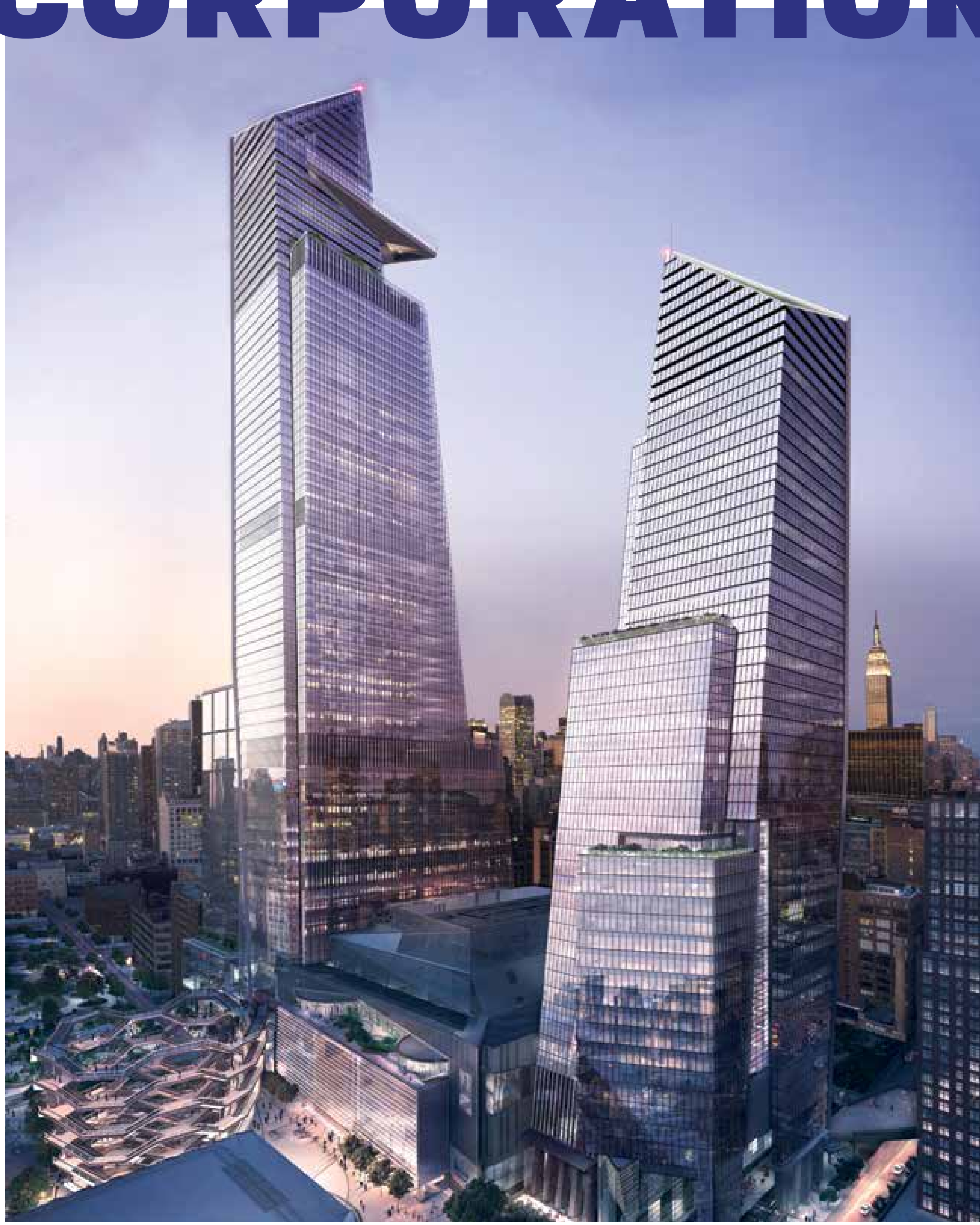
HUDSON YARDS INFRASTRUCTURE CORPORATION



A Component Unit of The City of New York

Annual Report 2018

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Letter From The President

We are pleased to present the annual report for the Hudson Yards Infrastructure Corporation ("HYIC" or "Corporation") for the fiscal year ending June 30, 2018. 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. Although HYIC is legally separate both from the City and from HYDC, the Corporation is an instrumentality of the City and included in the City's financial statements as a blended component unit.

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. Interest support payments ("ISP") are required to be made by the City only when the Corporation receives insufficient revenues from the development to pay interest on supported bonds. In August 2018, the City Council authorized issuance of an additional $500 million of debt supported by ISP to finance additional improvements in the Project Area and completion costs for the Project if any, bringing the total amount of bonds benefitting from the ISP to $3.5 billion.

HYIC resources pledged to HYIC bonds, in addition to ISP 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 and certain payments from the sale of the district improvement bonuses to private developers.

The No. 7 subway line, which originally terminated in Times Square, now extends approximately two miles to a terminus at West 34th Street and Eleventh Avenue, which opened in September 2015. A secondary entrance, located at West 35th Street and Hudson Boulevard East, opened in September 2018. The portion of the Hudson Park & Boulevard, located between West 33rd and West 36th Streets, has been completed and opened in August 2015. An expansion of the Hudson Park and Boulevard, located between West 36th and West 39th Streets, is currently in the design phase.

Completed development in the Project Area includes 10 Hudson Yards, an office tower containing 1.8 million square feet of commercial space; The Eugene, a residential development with 844 rental apartments; and 555 Tenth Avenue, a 600-unit rental apartment. Several new hotels and residential buildings were completed during the fiscal year.

Construction is underway for 30 Hudson Yards, a 2.6 million square foot office tower; 55 Hudson Yards, a 1.3 million square foot office tower; 35 Hudson Yards, a 71-story mixed use residential and office tower; 15 Hudson Yards, a 88-story condominium tower; One Manhattan West, a 1.9 million square foot office tower; a vertical shopping mall containing Manhattan's first ever Neiman Marcus store; 50 Hudson Yards, an office tower; 66 Hudson Yards, also an office tower; The Shed, a performance art space; and the Vessel, a public sculpture.

Prior to Fiscal Year 2017, HYIC had issued $3 billion of bonds to finance the Project. On May 30, 2017, HYIC issued approximately $2.1 million refunding bonds to refund a portion of its outstanding bonds at lower interest rates. As of June 30, 2018, HYIC had approximately $2.72 billion of bonds outstanding.

Very truly yours,

Alan Anders
President

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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, 2018 and 2017, 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 from 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, 2018 and 2017, 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 Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 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 28, 2018

MARKS PANETH
ACCOUNTANTS & ADVISORS

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited)

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, 2018 and 2017, 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 Seventh Avenue and 41st Street to a new station at Eleventh 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. The subway extension began service in September 2015 and the construction of Phase I of Hudson Park and Boulevard was completed and opened to the public in August 2015.

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

ORGANIZATIONAL OVERVIEW (continued)

HYIC fulfills its purpose through the issuance 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 that are entered into by developers are done so because PILOT payments during the first 19 years are 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 "First Indenture") and the Second Trust Indenture dated May 1, 2017, (the "Second Indenture"), collectively, the ("Indentures").

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), are used by HYIC in accordance with the Indentures.

Under the First Indenture, the Conversion Date is defined as 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 operating expenses and interest in the current and subsequent fiscal year 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.

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

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 were 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 was 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 May 30, 2017, HYIC issued $2.1 billion Fiscal Year 2017 Series A Subordinate Bonds and $33.3 million Series B Subordinate Bonds (together known as "FY17 Bonds") under the Second Indenture. Proceeds of the FY17 Bonds were applied, with other available funds, to refund all of the FY07 Bonds and $391 million of the FY12 Bonds. This refinancing caused the conversion of the remaining First Indenture Bonds, requiring the unrefunded $609 million of FY12 Bonds to be amortized on a substantially level debt service basis to maturity in 2047 through annual sinking fund installments. Additionally, the refunding enabled HYIC to make a payment to the New York City Transitional Finance Authority ("NYC TFA") to defease a portion of its debt.

The following summarizes the activities of HYIC for the years ended June 30, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
REVENUES:					
Program revenue	$ 208,923	$ 133,581	$ 131,304	$ 75,342	$ 2,277
Gain on defeasance	—	494	—	(494)	494
Other revenue	21,840	2,078	2,034	19,762	44
TOTAL REVENUES	230,763	136,153	133,338	94,610	2,815
EXPENSES:					
Project	26,026	50,626	56,032	(24,600)	(5,406)
Bond interest	115,217	129,526	142,425	(14,309)	(12,899)
Payment to NYC TFA	—	112,793	—	(112,793)	112,793
Cost of bond issuance	—	12,729	—	(12,729)	12,729
Loss on defeasance	2,213	—	—	2,213	—
Other	704	1,322	503	(618)	819
TOTAL EXPENSES	144,160	306,996	198,960	(162,836)	108,036
CHANGE IN NET POSITION	86,603	(170,843)	(65,622)	257,446	(105,221)
NET POSITION (DEFICIT) — Beginning of year	(2,776,464)	(2,605,621)	(2,539,999)	(170,843)	(65,622)
NET POSITION (DEFICIT) — End of year	$ (2,689,861)	$ (2,776,464)	$ (2,605,621)	$ 86,603	$ (170,843)

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

Program revenue was greater in fiscal year 2018 when compared to fiscal years 2017 and 2016, mainly because of the increased DIB, PILOT, and TEP collections during fiscal year 2018. Other revenue, is primarily composed of: 1) IDA fees which fluctuates based on IDA agreements entered into by developers, 2) investment income which fluctuates based on the balance of cash holdings and interest rate market conditions, and 3) a one-time arbitrage rebate refund recorded in fiscal year 2018 of $8.8 million.

Project expenses have generally decreased each fiscal year due to diminishing subway extension expenses as subway construction approached completion. In addition, a settlement with a condemnation claimant resulted in a $13.9 million reduction of accrued condemnation expenses, which attributed to the large reduction of project expenses in fiscal year 2018.

The decreases in bond interest expense in fiscal years 2018 and 2017 were due to the bond refunding transaction. In addition, changes in bond interest expense during the years reported were attributable to changes in interest accrued on TDRs held by HYIC. Bond interest expense was offset by the interest cost of borrowed funds used to purchase the TDRs, which become part of the TDRs' asset value (see Note 5).

Due to a cash defeasance in fiscal year 2018, an accounting loss on defeasance of $2.2 million, which represents the difference between the carrying value of the defeased bonds and the amount paid (using current resources) to defease the bonds, was reported as a period expense (see Note 6).

Due to the refunding transaction, new activities in fiscal year 2017 included gain on defeasance of $494 thousand, payment to NYC TFA of $113 million, and cost of issuance of $12.7 million.

The following summarizes HYIC's assets, liabilities and net position (deficit) as of June 30, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
ASSETS:					
Non-capital	$ 448,609	$ 392,711	$ 610,325	$ 55,898	$ (217,614)
TOTAL ASSETS	448,609	392,711	610,325	55,898	(217,614)
LIABILITIES:					
Current liabilities	57,744	37,701	65,575	20,043	(27,874)
Long-term liabilities	3,043,916	3,093,057	3,144,855	(49,141)	(51,798)
TOTAL LIABILITIES	3,101,660	3,130,758	3,210,430	(29,098)	(79,672)
DEFERRED INFLOWS OF RESOURCES:					
Prepaid PILOT	15,114	15,946	5,516	(832)	10,430
Unamortized deferred bond refunding costs	21,696	22,471	—	(775)	22,471
TOTAL DEFERRED INFLOWS OF RESOURCES	36,810	38,417	5,516	(1,607)	32,901
NET POSITION (DEFICIT):					
Restricted	59,787	85,730	136,674	(25,943)	(50,944)
Unrestricted	(2,749,648)	(2,862,194)	(2,742,295)	112,546	(119,899)
TOTAL NET POSITION (DEFICIT)	$ (2,689,861)	$ (2,776,464)	$ (2,605,621)	$ $86,603	$ (170,843)

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

The increase in assets reported in fiscal year 2018 reflected the increased revenue collections retained by HYIC. The decrease in assets reported in fiscal year 2017 was due to the application of retained debt service funds related to the refunding transaction. The capital assets being financed by HYIC are not owned by HYIC; therefore, they do not appear on the financial statements of HYIC (see Note 2).

The increase in current liabilities in fiscal year 2018 when compared to fiscal year 2017, was mainly due to increased accrued bond interest payable resulting from the restructured debt service schedule. Current liabilities at June 30, 2017 and 2016 were lower each year as project expenses decreased.

The decrease in long-term liabilities in fiscal year 2018 was primarily due to the defeasance of $26.9 million of previously reported long-term bonds, $16.8 million of bond premium amortization, and a net $13.9 million reduction of condemnation liabilities. The decrease in long-term liabilities in fiscal year 2017 was primarily due to the refunding transaction.

PILOT payments received for assessments owed in the following fiscal years are treated as prepaid amounts and reported as deferred inflows of resources. The reported deferred refunding costs resulted from the bond refunding transaction and represent the difference between removing the carrying amount of the refunded FY07 Bonds and FY12 Bonds and recording the FY17 Bonds and declines each year as the amount is amortized over the life of the bonds.

The large negative unrestricted net position (deficit) balances at June 30, 2018, 2017 and 2016 were primarily due to the issuance of bonds that will be repaid from future revenues.

Management's Discussion and Analysis
As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

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, 2018, 2017, and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
REVENUES:					
Program revenue	$ —	$ 2,483	$ 725	$ (2,483)	$ 1,758
Other revenue	11,234	66	14	11,168	52
TOTAL REVENUES	11,234	2,549	739	8,685	1,810
EXPENDITURES	704	1,322	503	(618)	819
OTHER FINANCING SOURCES	166,372	15,946	11,368	150,426	4,578
NET CHANGE IN FUND BALANCES	176,902	17,173	11,604	159,729	5,569
FUND BALANCE—Beginning of year	33,773	16,600	4,996	17,173	11,604
FUND BALANCE—End of year	$ 210,675	$ 33,773	$ 16,600	$ 176,902	$ 17,173

The amount of program revenue deposited in the GF was based on the difference between projected administrative expenditures and cash on hand needed to fund those expenditures. Other revenue is comprised of non-recurring application fees associated with IDA agreements entered into by developers.

Operating expenditures between fiscal years fluctuate based on the allocated costs associated with management's time spent on conducting HYIC operations. Operating expenditures in fiscal year 2017 were greater than fiscal years 2018 and 2016 due to increased allocated costs associated with management's time spent on the fiscal year 2017 refunding transaction.

Other financing sources greatly increased in fiscal year 2018 due to the transfer of Second Indenture surplus funds from the DSF to the GF.

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (amounts in thousands, except as noted) (continued)

The following summarizes the changes in the DSF balances for the years ended June 30, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
REVENUES:					
Program revenue	$ 208,923	$ 131,098	$ 130,579	$ 77,825	$ 519
Other revenue	986	1,363	915	(377)	448
TOTAL REVENUES	209,909	132,461	131,494	77,448	967
EXPENDITURES	133,113	325,852	145,879	(192,739)	179,973
OTHER FINANCING (USES)	(165,659)	(2,247)	(10,062)	(163,412)	7,815
NET CHANGE IN FUND BALANCES	(88,863)	(195,638)	(24,447)	106,775	(171,191)
FUND BALANCE—Beginning of year	206,953	402,591	427,038	(195,638)	(24,447)
FUND BALANCE—End of year	$ 118,090	$ 206,953	$ 402,591	$ (88,863)	$ (195,638)

Program revenue was greater in fiscal year 2018 when compared to fiscal years 2017 and 2016 due to greater DIB, PILOT and TEP collections in fiscal year 2018, as previously discussed.

Total expenditures were greater in fiscal year 2017, when compared to fiscal years 2018 and 2016, mainly because of the one-time payment to NYC TFA of $113 million, defeasance escrow payment of $51.9 million and costs of bond issuance of $12.7 million relating to the fiscal year 2017 bond refunding transaction.

Other financing (uses) increased in fiscal year 2018 due to the transfer of Second Indenture surplus funds from the DSF to the GF, as previously discussed. Due to the refunding transaction in fiscal year 2017, other financing (uses) decreased by approximately $7.8 million, which included $2.1 billion in bond proceeds and $309 million of bond premium, which was offset by $2.4 billion of bond principal payments.

The following summarizes the changes in the CPF balances for the years ended June 30, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
REVENUES	$ 796	$ 649	$ 1,105	$ 147	$ (456)
EXPENDITURES:					
Project costs	39,974	49,558	61,889	(9,584)	(12,331)
OTHER FINANCING (USES)	(713)	(967)	(1,306)	254	339
NET CHANGE IN FUND BALANCES	(39,891)	(49,876)	(62,090)	9,985	12,214
FUND BALANCE—Beginning of year	128,014	177,890	239,980	(49,876)	(62,090)
FUND BALANCE—End of year	$ 88,123	$ 128,014	$ 177,890	$ (39,891)	$ (49,876)

Management's Discussion and Analysis
As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUNDS FINANCIAL STATEMENTS
(amounts in thousands, except as noted) (continued)

The CPF revenues are comprised of interest earnings.

The decrease in project costs each year was due to declining project expenditures as the Project nears completion.

Other financing (uses) during fiscal years 2018, 2017 and 2016 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 applicable Indentures.

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
ASSETS:					
Unrestricted cash equivalents	$ 210,710	$ 33,812	$ 16,469	$ 176,898	$ 17,343
Other receivables	8,825	—	—	8,825	—
Prepaid insurance	—	—	152	—	(152)
TOTAL ASSETS	$ 219,535	$ 33,812	$ 16,621	$ 185,723	$ 17,191
LIABILITIES:	$ 36	$ 39	$ 21	$ (3)	$ 18
DEFERRED INFLOWS OF RESOURCES:					
Unavailable arbitrage rebate refund	8,824	—	—	8,824	—
FUND BALANCES:					
Nonspendable prepaid insurance	—	—	152	—	(152)
Unassigned	210,675	33,773	16,448	176,902	17,325
TOTAL FUND BALANCES	210,675	33,773	16,600	176,902	17,173
TOTAL LIABILITIES AND FUND BALANCES	$ 219,535	$ 33,812	$ 16,621	$ 185,723	$ 17,191

The GF assets increased in fiscal years 2018 and 2017 due to the transfer of Second Indenture surplus funds from the DSF to the GF. Other receivables and deferred inflows of resources were comprised of an arbitrage rebate refund that was measurable, but not available to finance expenditures in fiscal year 2018.

Management's Discussion and Analysis

As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

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, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
ASSETS:					
Restricted cash equivalents and investments	$ 133,189	$ 119,031	$ 308,646	$ 14,158	$ (189,615)
Transferable development rights	—	104,029	99,367	(104,029)	4,662
Due from capital projects fund	15	214	94	(199)	120
TOTAL ASSETS	$ 133,204	$ 223,274	$ 408,107	$ (90,070)	$ (184,833)
LIABILITIES	$ —	$ 375	$ —	$ (375)	$ 375
DEFERRED INFLOWS OF RESOURCES:					
Prepaid PILOT	15,114	15,946	5,516	(832)	10,430
FUND BALANCES:					
Restricted	118,090	206,953	402,591	(88,863)	(195,638)
TOTAL FUND BALANCES	118,090	206,953	402,591	(88,863)	(195,638)
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 133,204	$ 223,274	$ 408,107	$ (90,070)	$ (184,833)

The change in total assets between fiscal years is generally based on the difference between the collections of revenue and amounts retained for the following year's debt service during the fiscal year. The large decrease in DSF assets in fiscal year 2018 when compared to fiscal year 2017 was due to HYIC selling its remaining interest in transferable development rights. The large decrease in DSF assets in fiscal year 2017 when compared to fiscal year 2016 was due to the release of retained debt service funds related to the fiscal year 2017 refunding transaction.

HYIC received PILOT payments for assessments attributable to the next fiscal year; the prepaid amount is reported as deferred inflows of resources.

Management's Discussion and Analysis
As of and for the years ended June 30, 2018 and 2017 (unaudited) (continued)

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, 2018, 2017 and 2016:

(amounts in thousands)	2018	2017	2016	Change 2018 vs 2017	Change 2017 vs 2016
ASSETS:					
Restricted cash equivalents and investments	$ 95,885	$ 135,839	$ 185,691	$ (39,954)	$ (49,852)
TOTAL ASSETS	$ 95,885	$ 135,839	$ 185,691	$ (39,954)	$ (49,852)
LIABILITIES:					
Project costs payable	$ 7,747	$ 7,611	$ 7,707	$ 136	$ (96)
Due to debt service fund	15	214	94	(199)	120
TOTAL LIABILITIES	7,762	7,825	7,801	(63)	24
FUND BALANCES:					
Restricted	88,123	128,014	177,890	(39,891)	(49,876)
TOTAL FUND BALANCES	88,123	128,014	177,890	(39,891)	(49,876)
TOTAL LIABILITIES AND FUND BALANCES	$ 95,885	$ 135,839	$ 185,691	$ (39,954)	$ (49,852)

CPF assets on hand at June 30, 2018, 2017, and 2016 represented unspent bond proceeds. The decrease in fund balances each year reflected Project expenditures made during that year.

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, 2018 and 2017

(amounts in thousands)	2018	2017
ASSETS:		
Unrestricted cash equivalents	$ 190,583	$ 33,802
Restricted cash equivalents	5,797	199,070
Unrestricted investments	19,921	—
Restricted investments	223,265	55,703
Interest receivable	218	107
Receivable—other	8,825	—
Transferable development rights	—	104,029
Total assets	448,609	392,711
LIABILITIES:		
Project costs payable	7,490	6,706
Accrued expenses	36	414
Payable to The City of New York	257	861
Payable to Hudson Yards Development Corporation	—	44
Accrued bond interest payable	49,961	21,181
Contingent liabilities	28,336	42,284
Long-term debt:		
Portion due within one year	—	8,495
Portion due after one year	3,015,580	3,050,773
Total liabilities	3,101,660	3,130,758
DEFERRED INFLOWS OF RESOURCES:		
Prepaid PILOT	15,114	15,946
Unamortized deferred bond refunding costs	21,696	22,471
Total deferred inflows of resources	36,810	38,417
NET POSITION (DEFICIT):		
Restricted for capital projects	59,787	85,730
Unrestricted (deficit)	(2,749,648)	(2,862,194)
Total net position (deficit)	$ (2,689,861)	$ (2,776,464)

See notes to financial statements.

Statements of Activities
For the years ended June 30, 2018 and 2017

(amounts in thousands)	2018	2017
REVENUES:		
District improvement bonus revenue	$ 75,099	$ 20,705
Tax equivalency payment revenue	84,332	70,545
PILOMRT revenue	17,782	31,384
PILOT revenue	31,710	10,947
Other revenue	17,835	10
Gain on defeasance	—	494
Investment income	4,005	2,068
Total revenues	230,763	136,153
EXPENSES:		
Project—subway extension	28,602	35,847
Project—land acquisition and public amenities	(4,589)	14,105
Project—transfer to Hudson Yards Development Corporation	2,013	674
Payment to NYC TFA	—	112,793
Bond interest	115,217	129,526
Loss on defeasance	2,213	—
Cost of bond issuance	—	12,729
General and administrative	704	1,322
Total expenses	144,160	306,996
CHANGE IN NET POSITION (DEFICIT)	86,603	(170,843)
NET POSITION (DEFICIT)—Beginning of year	(2,776,464)	(2,605,621)
NET POSITION (DEFICIT)—End of year	$ (2,689,861)	$ (2,776,464)

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2018

(amounts in thousands)	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 190,583	$ —	$ —	$ 190,583
Restricted cash equivalents	—	643	5,154	5,797
Unrestricted investments	19,921	—	—	19,921
Restricted investments	—	132,546	90,719	223,265
Interest receivable	206	—	12	218
Due from capital projects fund	—	15	—	15
Other receivables	8,825	—	—	8,825
Total assets	$ 219,535	$ 133,204	$ 95,885	$ 448,624
LIABILITIES:				
Project costs payable	$ —	$ —	$ 7,490	$ 7,490
Accounts payable	36	—	—	36
Due to debt service fund	—	—	15	15
Payable to The City of New York	—	—	257	257
Total liabilities	36	—	7,762	7,798
DEFERRED INFLOWS OF RESOURCES:				
Unavailable arbitrage rebate refund	8,824	—	—	8,824
Prepaid PILOT	—	15,114	—	15,114
Total deferred inflows of resources	8,824	15,114	—	23,938
FUND BALANCES:				
Restricted for:				
Debt service	—	118,090	—	118,090
Capital projects	—	—	88,123	88,123
Unassigned	210,675	—	—	210,675
Total fund balances	210,675	118,090	88,123	416,888
Total liabilities, deferred inflows of resources and fund balances	$ 219,535	$ 133,204	$ 95,885	$ 448,624

See notes to financial statements.

Governmental Funds Balance Sheet
As of June 30, 2017

(amounts in thousands)	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 33,802	$ —	$ —	$ 33,802
Restricted cash equivalents	—	118,971	80,099	199,070
Restricted investments	—	—	55,703	55,703
Interest receivable	10	60	37	107
Due from capital projects fund	—	214	—	214
Transferable development rights	—	104,029	—	104,029
Total assets	$ 33,812	$ 223,274	$ 135,839	$ 392,925
LIABILITIES:				
Project costs payable	$ —	$ —	$ 6,706	$ 6,706
Accounts payable	39	375	—	414
Due to debt service fund	—	—	214	214
Payable to The City of New York	—	—	861	861
Payable to Hudson Yards Development Corporation	—	—	44	44
Total liabilities	39	375	7,825	8,239
DEFERRED INFLOWS OF RESOURCES:				
Prepaid PILOT	—	15,946	—	15,946
Total deferred inflows of resources	—	15,946	—	15,946
FUND BALANCES:				
Restricted for:				
Debt service	—	206,953	—	206,953
Capital projects	—	—	128,014	128,014
Unassigned	33,773	—	—	33,773
Total fund balances	33,773	206,953	128,014	368,740
Total liabilities, deferred inflows of resources and fund balances	$ 33,812	$ 223,274	$ 135,839	$ 392,925

See notes to financial statements.

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

As of June 30, 2018 and 2017

(amounts in thousands)	2018	2017
TOTAL FUND BALANCES—GOVERNMENTAL FUNDS	$ 416,888	$ 368,740
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.	(291,710)	(308,508)
Costs of bond refundings are reported as expenditures in the governmental funds financial statements. However, in the statements of net position (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	(21,696)	(22,471)
Unavailable arbitrage rebate refund earned but not received within two months after year end is reported as a deferred inflows of resources in the governmental funds financial statements because it is not currently available; however, it is recognized as revenue in the statements of net position (deficit).	8,824	—
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	(2,723,870)	(2,750,760)
Accrued bond interest payable	(49,961)	(21,181)
Contingent liabilities	(28,336)	(42,284)
NET POSITION (DEFICIT)—GOVERNMENTAL ACTIVITIES	$ (2,689,861)	$ (2,776,464)

See notes to financial statements.

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

For the year ended June 30, 2018

(amounts in thousands)	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ —	$ 75,099	$ —	$ 75,099
Tax equivalency payment revenue	—	84,332	—	84,332
PILOMRT revenue	—	17,782	—	17,782
PILOT revenue	—	31,710	—	31,710
Other revenue	9,011	—	—	9,011
Investment income	2,223	986	796	4,005
Total revenues	11,234	209,909	796	221,939
EXPENDITURES:				
Project—subway extension	—	—	28,602	28,602
Project—land acquisition and public amenities	—	—	9,359	9,359
Project—transfers to Hudson Yards Development Corporation	—	—	2,013	2,013
Bond interest	—	102,837	—	102,837
Defeasance escrow	—	30,276	—	30,276
General and administrative	704	—	—	704
Total expenditures	704	133,113	39,974	173,791
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	166,372	(165,659)	(713)	—
Total other financing sources (uses)	166,372	(165,659)	(713)	—
NET CHANGE IN FUND BALANCES	176,902	(88,863)	(39,891)	48,148
FUND BALANCES—Beginning of year	33,773	206,953	128,014	368,740
FUND BALANCES—End of year	$ 210,675	$ 118,090	$ 88,123	$ 416,888

See notes to financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2017

(amounts in thousands)	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ 1,872	$ 18,833	$ —	$ 20,705
Tax equivalency payment revenue	611	69,934	—	70,545
PILOMRT revenue	—	31,384	—	31,384
PILOT revenue	—	10,947	—	10,947
Other revenue	10	—	—	10
Investment income	56	1,363	649	2,068
Total revenues	2,549	132,461	649	135,659
EXPENDITURES:				
Project—subway extension	—	—	35,847	35,847
Project—land acquisition and public amenities	—	—	13,037	13,037
Project—transfers to Hudson Yards Development Corporation	—	—	674	674
Payment to NYC TFA	—	112,793	—	112,793
Bond interest	—	148,463	—	148,463
Defeasance escrow	—	51,867	—	51,867
General and administrative	1,322	—	—	1,322
Costs of bond issuance	—	12,729	—	12,729
Total expenditures	1,322	325,852	49,558	376,732
OTHER FINANCING SOURCES (USES):				
Refunding bond proceeds	—	2,141,760	—	2,141,760
Bond premium	—	308,521	—	308,521
Payment of refunded bonds	—	(2,437,549)	—	(2,437,549)
Transfers (from capital projects fund) to debt service fund	—	967	(967)	—
Transfer (from general fund) to debt service fund	—	—	—	—
Transfer (from debt service fund) to general fund	15,946	(15,946)	—	—
Total other financing sources (uses)	15,946	(2,247)	(967)	12,732
NET CHANGE IN FUND BALANCES	17,173	(195,638)	(49,876)	(228,341)
FUND BALANCES—Beginning of year	16,600	402,591	177,890	597,081
FUND BALANCES—End of year	$ 33,773	$ 206,953	$ 128,014	$ 368,740

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, 2018 and 2017

(amounts in thousands)	2018	2017
NET CHANGE IN FUND BALANCES—TOTAL GOVERNMENTAL FUNDS	$ 48,148	$ (228,341)
Amount reported in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities on the statement of net position (deficit).	—	(2,141,760)
Governmental funds report bond premiums as other financing sources. However, on the statement of activities, premiums are amortized over the life of the debt.	—	(308,521)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position (deficit).	—	2,437,549
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	16,085	16,157
Payments to defease bonds prior to maturity are reported as expenditures in the governmental funds financial statements. However, in the statements of net position (deficit), only the difference between the carrying value of the defeased bonds and the amount paid to defease the bonds are reported as period revenues and expenses.	28,063	52,361
The governmental funds financial statements report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to refund the bonds.	775	775
Other revenue not available in the current period is deferred in the governmental funds financial statements and included in revenue in the statements of activities.	8,824	—
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 they are incurred or paid.	13,948	(1,068)
Interest expense is reported in the statements of activities on the accrual basis. However, interest is reported as an expenditure in governmental funds financial statements when the payment is due.	(29,240)	2,005
CHANGE IN NET POSITION (DEFICIT)—GOVERNMENTAL ACTIVITIES	$ 86,603	$ (170,843)

See notes to financial statements.

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (amounts in thousands, except as noted)

1. ORGANIZATION

Hudson Yards Infrastructure Corporation ("HYIC") is a local development corporation established by The City of New York (the "City") under Article 14 of the Not-for-Profit Corporation Law of the State of New York. HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the "Project"). 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 terminus at Seventh Avenue and 41st Street to a new station at Eleventh 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 sixty-days 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 "First Indenture") and Second Trust Indenture dated May 1, 2017, (the "Second Indenture"), collectively, the ("Indentures").

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Indentures are classified as restricted on the statements of net position (deficit) and the governmental funds balance sheets.

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 Indentures 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 Indentures 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 is not the owner of the Project assets that are constructed or acquired with the proceeds of its bonds. Assets related to the parks and boulevard are property of the City. Assets related to the subway extension are owned by the City and leased to the New York City Transit Authority pursuant to a long-term lease, and are treated as assets of the New York City Transit Authority on its financial statements. 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 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.

Revenues

HYIC revenues 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;

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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. In February 2012, HYIC made an initial installment payment of $8.8 million relating to its series 2007A bonds. However, as of the final computation date of its series 2007A bonds, the arbitrage rebate liability was negative and a refund of the initial $8.8 million payment has been requested.

Bond Premium and Issuance Costs

Bond premiums and discounts are capitalized and amortized over the life of the related debt using the interest method in the government-wide financial statements. The governmental funds financial statements recognize the premiums and discounts, as well as bond issuance costs, during the current period. Bond premiums and discounts are presented as additions or reductions to the face amount of the bonds payable. Bond issuance costs are recognized as an expense/expenditure in the period incurred in the government-wide and governmental funds financial statements, respectively.

Deferred Bond Refunding Costs

Deferred bond refunding costs represent the accounting gain or loss incurred on a refunding of outstanding bonds and are reported as deferred outflows of resources or deferred inflows of resources in the government-wide financial statements. The deferred bond refunding costs are amortized over the shorter of the remaining life of the old debt or the life of the new debt. In the debt service fund, costs of the bond issuance/refunding are reported as expenditures when incurred.

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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018, but was adopted in the current fiscal year. The adoption of GASB 83 did not have an impact on HYIC's financial statements as it has no such obligations.

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, ("GASB 84"). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. HYIC has not completed the process of evaluating GASB 84, but does not expect it to have an impact on HYIC's financial statements, as it does not enter into fiduciary activities.
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, ("GASB 86"). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 86 required HYIC to disclose certain information discussing its defeasance transaction using resources other than bond proceeds in Note 6 to the financial statements.
- In June 2017, GASB issued Statement No. 87, *Leases*, ("GASB 87"). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. HYIC has not completed the process of evaluating GASB 87, but does not expect it to have an impact on HYIC's financial statements, as it does not enter into lease agreements.
- In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, ("GASB 88"). The objective of GASB 88 is to improve consistency in the information that is disclosed in notes to government financial statements related to debt by defining debt for the purpose of note disclosure and establishes additional note disclosure requirements related to debt obligations of governments, including direct borrowing and direct placements. The requirements of GASB 88 are effective for fiscal years beginning after June 15, 2018. HYIC has not completed the process of evaluating GASB 88, but does not expect it to have a material impact on HYIC's financial statements.
- In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, ("GASB 89"). The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for certain interest costs by requiring interest costs incurred before the end of a construction period to be recognized as an expense/expenditure in governmental fund and government-wide financial statements. The requirements of GASB 89 are effective for fiscal years beginning after December 15, 2019. HYIC has not completed the process of evaluating GASB 89, but does not expect it to have an impact on HYIC's financial statements, as it does not report capital assets.

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

3. CASH AND CASH EQUIVALENTS

As of June 30, 2018 and 2017, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of 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, 2018 and 2017:

	2018	2017
Cash	$ —	$ —
Cash Equivalents (see Note 4)	196,380	232,872
Total Cash and Cash Equivalents	$ 196,380	$ 232,872

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2018 and 2017:

	2018	2017
UNRESTRICTED:		
Money Market Funds	$ 190,583	$ 33,802
U.S. Treasury Note (maturing within one year)	19,921	—
Total Unrestricted	210,504	33,802
RESTRICTED FOR DEBT SERVICE:		
Money Market Funds	643	118,971
U.S. Treasury Notes (maturing within one year)	132,546	—
Total Restricted for Debt Service	133,189	118,971
RESTRICTED FOR CAPITAL PROJECTS:		
Money Market Funds	5,154	80,099
Federal Farm Credit Bank Bond (maturing withing one year)	—	4,997
U.S. Treasury Notes (maturing within one year)	90,719	7,168
U.S. Treasury Note (maturing after one year)	—	43,538
Total Restricted for Capital Projects	95,873	135,802
Total Investments including cash equivalents	439,566	288,575
Less amounts reported as cash equivalents (see Note 3)	(196,380)	(232,872)
Total Investments	$ 243,186	$ 55,703

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

4. INVESTMENTS (continued)

HYIC's management invests funds which are not immediately required for operations, debt service or capital project expenses. Each account of HYIC is held pursuant to the Indentures and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indentures. Investments are reported at fair value using market prices in an active market as of the financial statement date.

Fair Value Hierarchy

HYIC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

HYIC has the following recurring fair value measurements as of June 30, 2018 and 2017:

- Money Market Funds are valued based on various market and industry inputs (Level 2 inputs).
- U.S. Treasury securities of $243.2 million and $50.7 million, respectively, are valued using quoted market prices (Level 1 inputs).
- U.S. Agency securities of $0 million and $5.0 million, respectively, are valued using a matrix pricing model (Level 2 inputs).

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, 2018 and 2017 are obligations of, or guaranteed by, the United States of America; or are invested in Federal Farm Credit Bank, which are rated by S&P AA+, Moody Aaa, and Fitch AAA; and money market funds invested in eligible government obligations, which are rated by S&P AAAm and Moodys Aaa-mf.

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 Indentures. As of June 30, 2017, 100% of HYIC's investments are in eligible government obligations or in money market funds invested in eligible government obligations.

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

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 on 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). The cost of funds is adjusted annually as an offset to interest expense/ expenditures.

During fiscal years 2016 and 2015, HYIC received proceeds of $99.2 million and $90.1 million, respectively, from the sale of TDRs. These amounts reduced carrying amounts of the assets on the governmental funds balance sheets and in the statements of net position (deficit). In September 2017, HYIC sold all of its remaining interest in TDRs.

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 were 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. Debt service payments on the Series 2007A Bonds and the Series 2012A Bonds were made from revenues and TDRs sale proceeds received as a result of development in the Hudson Yards Financing District.

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 funding interest for the subsequent fiscal year, 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. The refinancing issuance in May 2017 caused the conversion of the remaining bonds outstanding under the First Indenture.

Prior to the Conversion Date, HYIC was 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 bonds after funding interest 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 First 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.

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

On May 30, 2017, HYIC issued $2.1 billion Fiscal Year 2017 Series A Subordinate Bonds and $33.3 million Series B Subordinate Bonds (together known as "FY17 Bonds") under the Second Indenture. Interest on FY17 Bonds is paid semi-annually on February 15 and August 15. Proceeds of the FY17 Bonds were applied, with other available funds, to refund all of the FY07 Bonds and $391 million of the FY12 Bonds. The refinancing caused the conversion of the remaining First Indenture bonds, requiring the unrefunded $609 million of FY12 Bonds to be amortized on a substantially level debt service basis to maturity in 2047 through annual sinking fund installments. Additionally, the refunding enabled HYIC to make a payment to the New York City Transitional Finance Authority ("NYC TFA") to defease a portion of its debt.

On December 8, 2017, HYIC defeased $26.9 million of Fiscal Year 2012 Series A bonds by depositing $30.3 million of its existing resources into a defeasance escrow account to be invested and applied to pay a total of $5.1 million in semi-annual interest payments. The 2018 through 2020 sinking fund requirements on remaining Fiscal 2012 Series A bonds will be redeemed on February 15, 2021.

Outstanding bonds bear interest at fixed rates ranging from 3% to 5.75%.

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2018 follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
SERIES				
Fiscal 2012 Series A	$ 609,000	$ —	$ (26,890)	$ 582,110
Fiscal 2017 Series A	2,108,465	—	—	2,108,465
Fiscal 2017 Series B	33,295	—	—	33,295
Total before premium	2,750,760	—	(26,890)	2,723,870
Premium	308,508	—	(16,798)	291,710
Total Bonds Payable and Premium	$ 3,059,268	$ —	$ (43,688)	$ 3,015,580
Due Within One Year				$ —

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2017 follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
SERIES				
Fiscal 2007 Series A	$ 2,000,000	$ —	$ (2,000,000)	$ —
Fiscal 2012 Series A	1,000,000	—	(391,000)	609,000
Fiscal 2017 Series A	—	2,108,465	—	2,108,465
Fiscal 2017 Series B	—	33,295	—	33,295
Total before premium	3,000,000	2,141,760	(2,391,000)	2,750,760
Premium	103,639	308,521	(103,652)	308,508
Total Bonds Payable and Premium	$ 3,103,639	$ 2,450,281	$ (2,494,652)	$ 3,059,268
Due Within One Year				$ 8,495

Notes to Financial Statements

As of and for the years ended June 30, 2018 and 2017 (continued) (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2018, are as follows:

	First Indenture Bonds		Second Indenture Bonds		Total		
Years Ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
2019	$ —	$ 31,679	$ —	$ 100,571	$ —	$ 132,250	$ 132,250
2020	—	31,679	—	100,571	—	132,250	132,250
2021	9,955	31,679	—	100,571	9,955	132,250	142,205
2022	10,500	31,137	42,690	100,571	53,190	131,708	184,898
2023	11,070	30,566	44,675	98,585	55,745	129,151	184,896
2024 to 2028	65,055	143,112	258,255	458,043	323,310	601,155	924,465
2029 to 2033	84,805	123,374	329,260	387,042	414,065	510,416	924,481
2034 to 2038	110,530	97,647	419,215	297,091	529,745	394,738	924,483
2039 to 2043	144,065	64,113	530,215	186,082	674,280	250,195	924,475
2044 to 2047	146,130	20,408	517,450	55,373	663,580	75,781	739,361
Totals	$ 582,110	$ 605,394	$ 2,141,760	$ 1,884,500	$ 2,723,870	$ 2,489,894	$ 5,213,764

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.

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 therefore any accrued estimated liabilities were removed from HYIC's financial statements for those years.

In June 2014, the Claimants submitted amended appraisals to the City based on the appropriate zoning assumptions for the majority of the properties and the City was informed that the balance of amended appraisals for the remaining properties would 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. Therefore, the contingent liability was 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 was 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.

In fiscal year 2015, the balance of amended appraisals for the properties was submitted. Therefore, the contingent liability was recalculated based on 50% of the City's Appraised Value and the interest calculated at 6% simple interest from the date the property was condemned plus 18% for potential legal fees under NY EDPL §701. However, in some cases, the difference between the City and Claimant's Vesting Appraisal Amount was less than the 50% of the aggregate amount of the City's appraised value so the difference was used as the contingent liability. Therefore, as of June 30, 2015, the estimated contingent liability was approximately $47.1 million.

Since the recalculation of the contingent liability in fiscal year 2015, the contingent liability has been adjusted for settled cases and accrued interest resulting in an amount of $28.3 million and $42.3 million as of June 30, 2018 and 2017, respectively. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

* * * * *

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