Hudson Yards Infrastructure Corporation

2019 ANNUAL REPORT

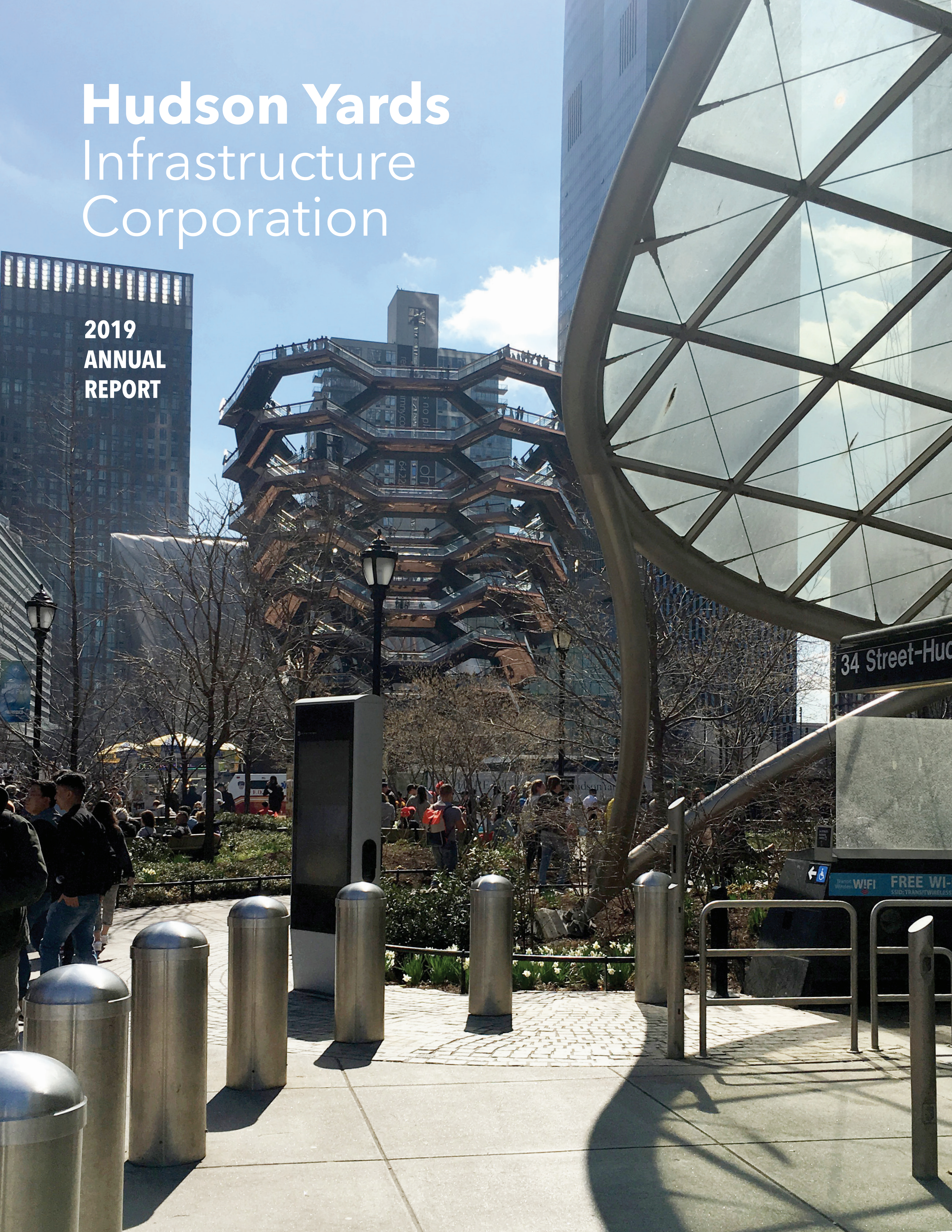
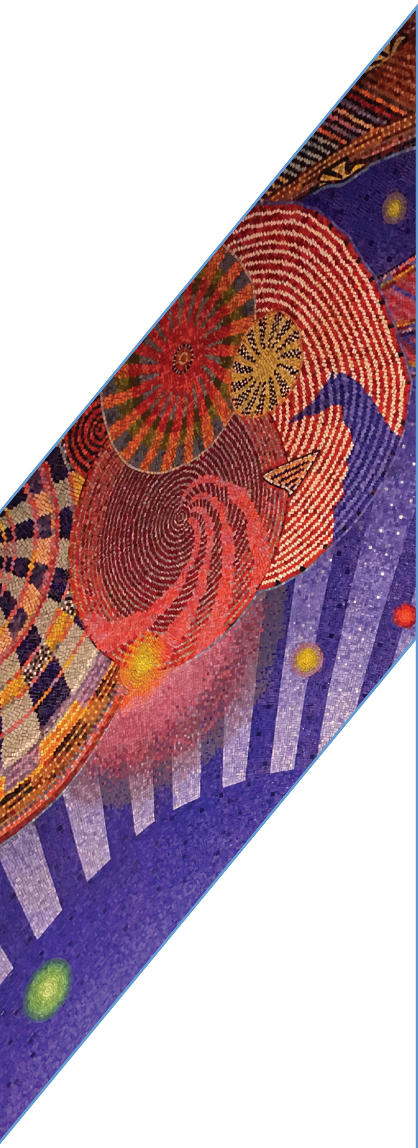


TABLE OF **CONTENTS**



LETTER
FROM
THE
PRESIDENT

We are pleased to present the Fiscal Year 2019 Annual Report for Hudson Yards Infrastructure Corporation ("HYIC" or "Corporation"), a local development corporation created 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 in 2005 to finance certain property acquisition and infrastructure work (the "Project"), including the extension of the No. 7 subway line from Times Square to West 34th Street and Eleventh Avenue ("No. 7 subway extension").

The Hudson Yards Financing District or the "Project Area" is 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 Corporation derives its revenues primarily from development within 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 within the Project Area 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. Based on current legal authorization, up to $3.5 billion of HYIC bonds may benefit from the ISP.

The No. 7 subway extension was opened in September 2015. A secondary entrance, located at West 35th Street and Hudson Boulevard East, opened in September 2018. The portion of the Bella Abzug Park (previously named Hudson Park & Boulevard), located between West 33rd and West 36th Streets, opened in August 2015. An expansion between West 36th and West 39th Streets is currently in the design phase.

Completed development in the Project Area includes 10 Hudson Yards, a 1.8 million square feet office tower; The Eugene, a residential development with 844 rental apartments; 555 Tenth Avenue, a 600-unit rental apartment; 15 Hudson Yards, a 88-story condominium tower; 30 Hudson Yards, a 2.6 million square feet office space; and 35 Hudson Yards, a 71-story mixed use residential and office tower. In March 2019, several cultural and retail amenities were opened, including the Public Square and Gardens, a five-acre public space; The Shops & Restaurants, a one million square feet shopping mall featuring New York's first Neiman Marcus store; 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. On February 1, 2019, HYIC entered into a Term Loan Agreement ("Loan") with Bank of America, N.A., allowing the Corporation to draw up to $350 million to finance additional infrastructure projects in the Project Area. As of June 30, 2019, HYIC had approximately $2.72 billion of bonds outstanding, unchanged from the previous fiscal year.

Very truly yours,

Alan Anders
President

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

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, 2019 and 2018, 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, 2019 and 2018, 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.

Morison KSi
Independent member

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 27, 2019

Management's Discussion and Analysis
As of and for the Years Ended June 30, 2019 and 2018 (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, 2019 and 2018, 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 reconciliations 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 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 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 a portion of Hudson Park and Boulevard was completed and opened to the public in August 2015.

HYIC fulfills its purpose through borrowing to finance the Project 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 Amended and Restated Support and Development Agreement and the Additional Borrowing Hudson Yards Support Agreement, (together the "Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISPs on up to $3.35 billion of HYIC debt in an amount equal to the difference between the amount of funds available to HYIC to pay interest on such debt and the amount of interest due on such debt; (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. Application of revenues, transfers of funds and payments are done in accordance with the terms of the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "First Indenture"), the Second Trust Indenture dated May 1, 2017, (the "Second Indenture") and Third Supplemental Trust Indenture dated February 1, 2019 (the "Third Indenture"), collectively, the ("Indentures").

Management's Discussion and Analysis
As of and for the Years Ended June 30, 2019 and 2018 (unaudited) (continued)

ORGANIZATIONAL OVERVIEW (continued)

Proceeds received by HYIC for sales of the TDRs (as discussed in Note 5), including the $200 million purchase price and interest costs thereon, were 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 first became 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 was not obligated to make any payments of principal of its bonds prior to maturity unless and until HYIC received revenues in amounts sufficient to make such payments. After the Conversion Date of May 30, 2017, HYIC was required to 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, 2019 and 2018 (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 second 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 received 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.

On February 1, 2019, HYIC entered into a Term Loan Agreement ("Loan") allowing it to draw up to $350 million to finance additional infrastructure projects in the Project Area. As of June 30, 2019, HYIC has not drawn upon the Loan.

The following summarizes the activities of HYIC for the years ended June 30, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
REVENUES:					
Program revenue	$ 253,525	$ 208,923	$ 133,581	$ 44,602	$ 75,342
Gain on defeasance	—	—	494	—	(494)
Other revenue	11,410	21,840	2,078	(10,430)	19,762
TOTAL REVENUES	264,935	230,763	136,153	34,172	94,610
EXPENSES:					
Project	34,371	26,026	50,626	8,345	(24,600)
Bond interest	115,390	115,217	129,526	173	(14,309)
Payment to NYC TFA	—	—	112,793	—	(112,793)
Payment to The City of New York	100,000	—	—	100,000	—
Cost of bond issuance	—	—	12,729	—	(12,729)
Loss on defeasance	—	2,213	—	(2,213)	2,213
Other	981	704	1,322	277	(618)
TOTAL EXPENSES	250,742	144,160	306,996	106,582	(162,836)
CHANGE IN NET POSITION	14,193	86,603	(170,843)	(72,410)	257,446
NET POSITION (DEFICIT) — Beginning of year	(2,689,861)	(2,776,464)	(2,605,621)	86,603	(170,843)
NET POSITION (DEFICIT) — End of year	$ (2,675,668)	$ (2,689,861)	$ (2,776,464)	$ 14,193	$ 86,603

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2019 and 2018 (unaudited) (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS–GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Program revenue consists of recurring revenues of PILOT and TEP payments and non-recurring revenues of DIB and PILOMRT. These amounts fluctuate each year as the payments are mainly based on developers entering new agreements, property assessments, and construction completion. Other revenue is primarily composed of: 1) IDA fees that fluctuate based on IDA agreements entered into by developers, 2) investment income which fluctuates based on the balance of cash holdings and interest rates, and 3) a one-time arbitrage rebate refund recorded in fiscal year 2018 of $8.8 million.

Project expenses fluctuate each year based on the timing and progress of construction. 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.

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, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
ASSETS:					
Non-capital	$ 475,987	$ 448,609	$ 392,711	$ 27,378	$ 55,898
TOTAL ASSETS	475,987	448,609	392,711	27,378	55,898
LIABILITIES:					
Current liabilities	52,974	57,744	37,701	(4,770)	20,043
Long-term liabilities	3,017,506	3,043,916	3,093,057	(26,410)	(49,141)
TOTAL LIABILITIES	3,070,480	3,101,660	3,130,758	(31,180)	(29,098)
DEFERRED INFLOWS OF RESOURCES:					
Prepaid PILOT	60,254	15,114	15,946	45,140	(832)
Unamortized deferred bond refunding costs	20,921	21,696	22,471	(775)	(775)
TOTAL DEFERRED INFLOWS OF RESOURCES	81,175	36,810	38,417	44,365	(1,607)
NET POSITION (DEFICIT):					
Restricted	26,211	59,787	85,730	(33,576)	(25,943)
Unrestricted	(2,701,879)	(2,749,648)	(2,862,194)	47,769	112,546
TOTAL NET POSITION (DEFICIT)	$ (2,675,668)	$ (2,689,861)	$ (2,776,464)	$ 14,193	$ 86,603

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2019 and 2018 (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 2019 and 2018 reflected the increased revenue collections retained by HYIC. The capital assets 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 was mainly due to increased accrued bond interest payable resulting from the revised debt service schedule following the refunding transaction, as previously discussed.

The decrease in long-term liabilities in fiscal year 2019 was primarily due to the amortization of $16.1 million of bond premium and a reduction of $10.3 of contingent liabilities. 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.

PILOT payments received for assessments owed in the following fiscal years are treated as prepaid amounts and reported as deferred inflows of resources and the increase in fiscal year 2019 was primarily due to increased assessments on properties under PILOT agreements that have completed construction. The deferred bond refunding costs resulted from the bond refunding transaction and represents the difference between removing the carrying amount of the refunded FY07 Bonds and FY12 Bonds and recording the FY17 Bonds, such amount 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, 2019, 2018 and 2017 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, 2019 and 2018 (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, 2019, 2018, and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
REVENUES:					
Program revenue	$ 1,240	$ —	$ 2,483	$ 1,240	$ (2,483)
Other revenue	13,816	11,234	66	2,582	11,168
TOTAL REVENUES	15,056	11,234	2,549	3,822	8,685
EXPENDITURES	100,981	704	1,322	100,277	(618)
OTHER FINANCING SOURCES (USES)	79,631	166,372	15,946	(86,741)	150,426
NET CHANGE IN FUND BALANCES	(6,294)	176,902	17,173	(183,196)	159,729
FUND BALANCE—Beginning of year	210,675	33,773	16,600	176,902	17,173
FUND BALANCE—End of year	$ 204,381	$ 210,675	$ 33,773	$ (6,294)	$ 176,902

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 and investment income.

Operating expenditures in fiscal year 2019 included a payment of surplus revenues to the City of $100 million.

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, 2019 and 2018 (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, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
REVENUES:					
Program revenue	$ 252,285	$ 208,923	$ 131,098	$ 43,362	$ 77,825
Other revenue	4,388	986	1,363	3,402	(377)
TOTAL REVENUES	256,673	209,909	132,461	46,764	77,448
EXPENDITURES	132,250	133,113	325,852	(863)	(192,739)
OTHER FINANCING SOURCES (USES)	(78,396)	(165,659)	(2,247)	87,263	(163,412)
NET CHANGE IN FUND BALANCES	46,027	(88,863)	(195,638)	134,890	106,775
FUND BALANCE—Beginning of year	118,090	206,953	402,591	(88,863)	(195,638)
FUND BALANCE—End of year	$ 164,117	$ 118,090	$ 206,953	$ 46,027	$ (88,863)

Program revenue was greater in fiscal years 2019 and 2018 due to increased collections, as previously discussed.

Total expenditures were greater in fiscal year 2017, when compared to fiscal years 2019 and 2018, 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 sources (uses) was greater in fiscal year 2018 due to the transfer of Second Indenture surplus funds from the DSF to the GF, as previously discussed.

The following summarizes the changes in the CPF balances for the years ended June 30, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
REVENUES	$ 2,030	$ 796	$ 649	$ 1,234	$ 147
EXPENDITURES:					
Project costs	44,696	39,974	49,558	4,722	(9,584)
OTHER FINANCING SOURCES (USES)	(1,235)	(713)	(967)	(522)	254
NET CHANGE IN FUND BALANCES	(43,901)	(39,891)	(49,876)	(4,010)	9,985
FUND BALANCE—Beginning of year	88,123	128,014	177,890	(39,891)	(49,876)
FUND BALANCE—End of year	$ 44,222	$ 88,123	$ 128,014	$ (43,901)	$ (39,891)

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2019 and 2018 (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.

Project expenditures fluctuate each year based on the timing and progress of construction.

Other financing sources (uses) during fiscal years 2019, 2018 and 2017 mainly reflect 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, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
ASSETS:					
Unrestricted cash equivalents	$ 204,509	$ 210,710	$ 33,812	$ (6,201)	$ 176,898
Other receivables	—	8,825	—	(8,825)	8,825
TOTAL ASSETS	$ 204,509	$ 219,535	$ 33,812	$ (15,026)	$ 185,723
LIABILITIES:	$ 128	$ 36	$ 39	$ 92	$ (3)
DEFERRED INFLOWS OF RESOURCES:					
Unavailable arbitrage rebate refund	—	8,824	—	(8,824)	8,824
FUND BALANCES:					
Unassigned	204,381	210,675	33,773	(6,294)	176,902
TOTAL FUND BALANCES	204,381	210,675	33,773	(6,294)	176,902
TOTAL LIABILITIES AND FUND BALANCES	$ 204,509	$ 219,535	$ 33,812	$ (15,026)	$ 185,723

The GF assets increased in fiscal years 2019 and 2018 due to the large transfer of Second Indenture surplus funds from the DSF to the GF. Other receivables and deferred inflows of resources in fiscal year 2018 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, 2019 and 2018 (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, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
ASSETS:					
Restricted cash equivalents and investments	$ 224,341	$ 133,189	$ 119,031	$ 91,152	$ 14,158
Transferable development rights	—	—	104,029	—	(104,029)
Due from capital projects fund	30	15	214	15	(199)
TOTAL ASSETS	$ 224,371	$ 133,204	$ 223,274	$ 91,167	$ (90,070)
LIABILITIES	$ —	$ —	$ 375	$ —	$ (375)
DEFERRED INFLOWS OF RESOURCES:					
Prepaid PILOT	60,254	15,114	15,946	45,140	(832)
FUND BALANCES:					
Restricted	164,117	118,090	206,953	46,027	(88,863)
TOTAL FUND BALANCES	164,117	118,090	206,953	46,027	(88,863)
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 224,371	$ 133,204	$ 223,274	$ 91,167	$ (90,070)

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 increase in DSF assets in fiscal year 2019 when compared to fiscal year 2018 was due to the retention of debt service funds in fiscal year 2019. 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.

HYIC received PILOT payments for assessments attributable to the next fiscal year; the prepaid amount is reported as deferred inflows of resources and the increase in fiscal year 2019 was primarily due to increased assessments on properties under PILOT agreements that have completed construction, as previously discussed.

Management's Discussion and Analysis
As of and for the Years Ended June 30, 2019 and 2018 (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, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019 vs 2018	Change 2018 vs 2017
ASSETS:					
Restricted cash equivalents and investments	$ 47,137	$ 95,885	$ 135,839	$ (48,748)	$ (39,954)
TOTAL ASSETS	$ 47,137	$ 95,885	$ 135,839	$ (48,748)	$ (39,954)
LIABILITIES:					
Project costs payable	$ 2,885	$ 7,747	$ 7,611	$ (4,862)	$ 136
Due to debt service fund	30	15	214	15	(199)
TOTAL LIABILITIES	2,915	7,762	7,825	(4,847)	(63)
FUND BALANCES:					
Restricted	44,222	88,123	128,014	(43,901)	(39,891)
TOTAL FUND BALANCES	44,222	88,123	128,014	(43,901)	(39,891)
TOTAL LIABILITIES AND FUND BALANCES	$ 47,137	$ 95,885	$ 135,839	$ (48,748)	$ (39,954)

CPF assets on hand at June 30, 2019, 2018, and 2017 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, 2019 and 2018 (amounts in thousands)

	2019	2018
ASSETS:		
Unrestricted cash equivalents	$ 203,349	$ 190,583
Restricted cash equivalents	157,351	5,797
Unrestricted investments	1,079	19,921
Restricted investments	114,002	223,265
Interest receivable	206	218
Receivable—other	—	8,825
Total assets	475,987	448,609
LIABILITIES:		
Project costs payable	2,137	7,490
Accrued expenses	128	36
Payable to The City of New York	623	257
Payable to Hudson Yards Development Corporation	125	—
Accrued bond interest payable	49,961	49,961
Contingent liabilities	18,011	28,336
Long-term debt:		
Portion due after one year	2,999,495	3,015,580
Total liabilities	3,070,480	3,101,660
DEFERRED INFLOWS OF RESOURCES:		
Prepaid PILOT	60,254	15,114
Unamortized deferred bond refunding costs	20,921	21,696
Total deferred inflows of resources	81,175	36,810
NET POSITION (DEFICIT):		
Restricted for capital projects	26,211	59,787
Unrestricted (deficit)	(2,701,879)	(2,749,648)
Total net position (deficit)	$ (2,675,668)	$ (2,689,861)

See notes to financial statements.

Statements of Activities

For the years ended June 30, 2019 and 2018 (amounts in thousands)

	2019	2018
REVENUES:		
District improvement bonus revenue	$ 38,638	$ 75,099
Tax equivalency payment revenue	113,347	84,332
PILOMRT revenue	70,532	17,782
PILOT revenue	31,008	31,710
Other revenue	10	17,835
Investment income	11,400	4,005
Total revenues	264,935	230,763
EXPENSES:		
Project—subway extension	20,538	28,602
Project—land acquisition and public amenities	12,647	(4,589)
Project—transfer to Hudson Yards Development Corporation	1,186	2,013
Bond interest	115,390	115,217
Loss on defeasance	—	2,213
Payment to The City of New York	100,000	—
General and administrative	981	704
Total expenses	250,742	144,160
CHANGE IN NET POSITION (DEFICIT)	14,193	86,603
NET POSITION (DEFICIT)—Beginning of year	(2,689,861)	(2,776,464)
NET POSITION (DEFICIT)—End of year	$ (2,675,668)	$ (2,689,861)

See notes to financial statements.

Governmental Funds Balance Sheet

As of June 30, 2019 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 203,349	$ —	$ —	$ 203,349
Restricted cash equivalents	—	152,862	4,489	157,351
Unrestricted investments	1,079	—	—	1,079
Restricted investments	—	71,367	42,635	114,002
Interest receivable	81	112	13	206
Due from capital projects fund	—	30	—	30
Total assets	$ 204,509	$ 224,371	$ 47,137	$ 476,017
LIABILITIES:				
Project costs payable	$ —	$ —	$ 2,137	$ 2,137
Accounts payable	128	—	—	128
Due to debt service fund	—	—	30	30
Payable to The City of New York	—	—	623	623
Payable to Hudson Yards Development Corporation	—	—	125	125
Total liabilities	128	—	2,915	3,043
DEFERRED INFLOWS OF RESOURCES:				
Prepaid PILOT	—	60,254	—	60,254
Total deferred inflows of resources	—	60,254	—	60,254
FUND BALANCES:				
Restricted for:				
Debt service	—	164,117	—	164,117
Capital projects	—	—	44,222	44,222
Unassigned	204,381	—	—	204,381
Total fund balances	204,381	164,117	44,222	412,720
Total liabilities, deferred inflows of resources and fund balances	$ 204,509	$ 224,371	$ 47,137	$ 476,017

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 fund	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.

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

As of June 30, 2019 and 2018 (amounts in thousands)

	2019	2018
TOTAL FUND BALANCES—GOVERNMENTAL FUNDS	$ 412,720	$ 416,888
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.	(275,625)	(291,710)
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.	(20,921)	(21,696)
Unavailable arbitrage rebate refund earned but not received within two months after year-end is reported as a deferred inflow 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)	(2,723,870)
Accrued bond interest payable	(49,961)	(49,961)
Contingent liabilities	(18,011)	(28,336)
NET POSITION (DEFICIT)—GOVERNMENTAL ACTIVITIES	$ (2,675,668)	$ (2,689,861)

See notes to financial statements.

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

For the year ended June 30, 2019 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ —	$ 38,638	$ —	$ 38,638
Tax equivalency payment revenue	—	113,347	—	113,347
PILOMRT revenue	1,036	69,496	—	70,532
PILOT revenue	204	30,804	—	31,008
Other revenue	8,834	—	—	8,834
Investment income	4,982	4,388	2,030	11,400
Total revenues	15,056	256,673	2,030	273,759
EXPENDITURES:				
Project—subway extension	—	—	20,538	20,538
Project—land acquisition and public amenities	—	—	22,972	22,972
Project—transfers to Hudson Yards Development Corporation	—	—	1,186	1,186
Bond interest	—	132,250	—	132,250
Payment to The City of New York	100,000	—	—	100,000
General and administrative	981	—	—	981
Total expenditures	100,981	132,250	44,696	277,927
OTHER FINANCING SOURCES (USES):				
Transfers in (out)	79,631	(78,396)	(1,235)	—
Total other financing sources (uses)	79,631	(78,396)	(1,235)	—
NET CHANGE IN FUND BALANCES	(6,294)	46,027	(43,901)	(4,168)
FUND BALANCES—Beginning of year	210,675	118,090	88,123	416,888
FUND BALANCES—End of year	$ 204,381	$ 164,117	$ 44,222	$ 412,720

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.

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, 2019 and 2018 (amounts in thousands)

	2019	2018
NET CHANGE IN FUND BALANCES—TOTAL GOVERNMENTAL FUNDS	$ (4,168)	$ 48,148
Amount 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.	16,085	16,085
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
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)	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.	10,325	13,948
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)
CHANGE IN NET POSITION (DEFICIT)—GOVERNMENTAL ACTIVITIES	$ 14,193	$ 86,603

See notes to financial statements.

Notes to Financial Statements
As of and for the years ended June 30, 2019 and 2018
(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 Seventh Avenue and 41st Street to 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 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 a portion of Hudson Park and Boulevard was completed and opened to the public in August 2015.

HYIC fulfills its purpose through borrowing to finance the Project 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 debt. 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 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 its activities in accordance with the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "First Indenture"), Second Trust Indenture dated May 1, 2017 (the "Second Indenture") and Third Supplemental Trust Indenture dated February 1, 2019 (the "Third Indenture"), collectively, the ("Indentures").

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018 (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 GASB 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 borrowing. 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 Amended and Restated Support and Development Agreement and the Additional Borrowing Hudson Yards Support Agreement (together the "Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISP on up to $3.35 billion of HYIC debt, for so long as such debt is outstanding, in an amount equal to the difference between the amount of funds available to HYIC to pay interest on debt and the amount of interest due on such debt;

(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;

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018 (continued)
(amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 is generally used for debt service.

Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on HYIC tax exempt debt, 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 the $8.8 million payment was refunded back to HYIC in fiscal year 2019.

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, except for prepaid bond insurance, 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 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.

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018 (continued)
(amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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. The adoption of GASB 88 required HYIC to disclose in Note 6 its assets pledged as collateral for debt.

- 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. However, HYIC adopted GASB 89 in the current fiscal year. The adoption of GASB 89 did not have an impact on HYIC's financial statements as it has no capital assets.

- In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*, ("GASB 90"). GASB 90 clarifies the accounting and financial reporting requirements for a state and local government's majority equity interest in an organization that remains legally separate after acquisition. The requirements of GASB 90 are effective for fiscal years beginning after December 15, 2018. HYIC has not completed the process of evaluating GASB 90, but does not expect it to have an impact on HYIC's financial statements, as it has not made such acquisitions.

- In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, ("GASB 91"). GASB 91 provides state and local government's with a single financial reporting method for conduit debt obligations by issuers. The requirements of GASB 91 are effective for fiscal years beginning after December 15, 2020. However, HYIC adopted GASB 91 in the current fiscal year. The adoption of GASB 91 did not have an impact on HYIC's financial statements, as it does not issue conduit debt.

Notes to Financial Statements
As of and for the years ended June 30, 2019 and 2018 (continued)
(amounts in thousands, except as noted)

3. CASH AND CASH EQUIVALENTS

As of June 30, 2019 and 2018, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of Money Market Funds and US Treasury Obligations maturing within 90 days.

HYIC's cash and cash equivalents consisted of the following at June 30, 2019 and 2018:

	2019	2018
UNRESTRICTED:		
Cash Equivalents	$ 203,349	$ 190,583
Total unrestricted	203,349	190,583
RESTRICTED:		
Cash Equivalents	157,351	5,797
Total restricted	157,351	5,797
Total Cash Equivalents	$ 360,700	$ 196,380

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2019 and 2018:

	2019	2018
UNRESTRICTED:		
Money Market Funds	$ 7,121	$ 190,583
U.S. Treasury Bill (maturing within one year)	196,228	—
U.S. Treasury Note (maturing within one year)	1,079	19,921
Total Unrestricted	204,428	210,504
RESTRICTED FOR DEBT SERVICE:		
Money Market Funds	11,248	643
U.S. Treasury Bill (maturing within one year)	194,707	—
U.S. Treasury Note (maturing within one year)	18,274	132,546
Total Restricted for Debt Service	224,229	133,189
RESTRICTED FOR CAPITAL PROJECTS:		
Money Market Funds	4,489	5,154
U.S. Treasury Notes (maturing within one year)	42,635	90,719
Total Restricted for Capital Projects	47,124	95,873
Total Investments including cash equivalents	475,781	439,566
Less amounts reported as cash equivalents (see Note 3)	(360,700)	(196,380)
Total Investments	$ 115,081	$ 243,186

Notes to Financial Statements
As of and for the years ended June 30, 2019 and 2018 (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, 2019 and 2018:

- Money Market Funds are valued based on various market and industry inputs (Level 2 inputs).
- U.S. Treasury securities of $453 million and $243 million, respectively, are valued based on various market and industry inputs (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, 2019 and 2018 are obligations of, or guaranteed by, the United States of America, which are rated by S&P AA+, Moody's Aaa, and Fitch AAA; and money market funds invested in eligible government obligations, which are rated by S&P AAAm and Moody's Aaa-mf.

Interest Rate Risk

HYIC's short-term investments are subject to minimal risk of fair value declines due to changes in market interest rates because such investments have very short maturities. 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, 2019 and 2018, 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, 2019 and 2018 (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 permits 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 including the $200 million total purchase price and interest costs thereon were 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 to the MTA in fiscal year 2007, and made three more annual payments of $33 million in September of 2007, 2008 and 2009 for this purchase price and interest.

The full value of the TDRs, including, the full purchase price and HYIC's cost of funds, was reflected as an asset in the governmental funds balance sheets and in the statements of net position (deficit). The cost of funds was adjusted annually as an offset to interest expense/expenditures. 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 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 first became 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 received 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, discussed below, 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 Series 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.

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.

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018 (continued)
(amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

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.

On February 1, 2019, HYIC entered into a Term Loan Agreement ("Loan") allowing it to draw up to $350 million to finance additional infrastructure projects in the Project Area. As of June 30, 2019, HYIC has not drawn upon the Loan.

Outstanding debt is : 1) secured by the revenues (as defined in the Indentures) and with pledged collateral consisting of all money and securities deposited in funds, accounts, and subaccounts as provided pursuant to the applicable Indentures, and 2) 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, 2019 follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
SERIES				
Fiscal 2012 Series A	$ 582,110	$ —	$ —	$ 582,110
Fiscal 2017 Series A	2,108,465	—	—	2,108,465
Fiscal 2017 Series B	33,295	—	—	33,295
Total before premium	2,723,870	—	—	2,723,870
Premium	291,710	—	(16,085)	275,625
Total Bonds Payable and Premium	$ 3,015,580	$ —	$ (16,085)	2,999,495
Due Within One Year				$ —

HYIC's Indentures contain provisions that in the event of a payment default, the outstanding debt shall be subject to mandatory redemption and payment in accordance with the Indentures.

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				$ —

Notes to Financial Statements

As of and for the years ended June 30, 2019 and 2018 (continued)
(amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

Debt service requirements on bonds, including principal and interest, at June 30, 2019, are as follows:

	First Indenture Bonds		Second Indenture Bonds		Total		
Years Ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
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	11,670	29,963	46,825	96,433	58,495	126,396	184,891
2025 to 2029	68,595	139,571	271,030	445,270	339,625	584,841	924,466
2030 to 2034	89,420	118,759	345,655	370,649	435,075	489,408	924,483
2035 to 2039	116,550	91,632	439,175	277,127	555,725	368,759	924,484
2040 to 2044	151,900	56,273	555,560	160,738	707,460	217,011	924,471
2045 to 2047	112,450	12,456	396,150	33,414	508,600	45,870	554,470
Totals	$ 582,110	$ 573,715	$ 2,141,760	$ 1,783,929	$ 2,723,870	$ 2,357,644	$ 5,081,514

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 ended 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 $18 million and $28.3 million as of June 30, 2019 and 2018, respectively. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

* * * * *

DIRECTORS AND MANAGEMENT

DIRECTORS

Melanie Hartzog
Director of the New York City Office of Management and Budget

Scott M. Stringer
New York City Comptroller

Jacques Jiha
Commissioner of the Department of Finance

Corey Johnson
Speaker of City Council

Vicki Been
Deputy Mayor for Housing and Economic Development

Laura Anglin
Deputy Mayor for Operations

OFFICERS

Executive Director
Alan L. Anders

Secretary
Prescott D. Ulrey

Treasurer
F. Jay Olson

Comptroller
Robert Balducci

Deputy Comptroller
Kemraj Narine

Assistant Secretary
Jeffrey M. Werner

Assistant Treasurer
Laura A. Tarbox

Accounting Manager
Nameca Sharma

INVESTOR CONTACT

Jason Goh
(212) 788-5864 or GohJ@omb.nyc.gov

HYIC
Hudson Yards Infrastructure Corporation

255 Greenwich Street, 6th Floor
New York, NY 10007
www.nyc.gov/hyic