Hudson Yards Infrastructure Corporation

Hudson Yards Infrastructure Corporation

A Component Unit of The City of New York

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2013 and 2012

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

HUDSON YARDS INFRASTRUCTURE CORPORATION

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2013 AND 2012

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Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

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, 2013 and 2012, which collectively comprise HYIC's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Hudson Yards Infrastructure Corporation as of June 30, 2013 and 2012, 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.

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Emphasis of Matter

As discussed in Note 2, HYIC has restated its financial statements as of and for the year ended June 30, 2012 during the current year to retroactively implement Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 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 26, 2013

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, 2013 and 2012 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 43^{rd} Street on the north, Twelfth Avenue on the west and West 29^{th} and 30^{th} Streets on the south (the "Project Area"). The Project consists of: (1) design and construction of an extension of the No. 7 Subway from its current terminus at 7^{th} Avenue and 41^{st} Street to a new station at 11^{th} Avenue and West 34^{th} 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 30^{th} and West 33^{rd} 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.

ORGANIZATIONAL OVERVIEW (continued)

HYIC fulfills its purpose through the issuances of bonds to finance the Project, including the operations of HYDC, and the collection of revenues to support its operations and service its debt. HYIC revenues include and/or will include: (1) Interest Support Payments ("ISP") made by The City of New York ("The City") under the terms of the Support and Development Agreement ("Agreement") that obligates The City to pay to HYIC, subject to annual appropriation, ISPs on up to $3 billion of HYIC bonds in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds; (2) payments in lieu of real estate taxes ("PILOT") that have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements"); (3) Tax Equivalency Payments ("TEP") made by The City under the terms of the Agreement, which obligates The City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by The City on new development (including substantial rehabilitation of existing buildings) in the Project Area; (4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area; and (5) payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements. PILOT Agreements are expected to be entered into by developers because the PILOT payments during the first 19 years will be substantially lower than the real estate taxes that would otherwise be due. Interest earned on unspent bond proceeds is generally used for debt service, in accordance with the terms of the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "Indenture").

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

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

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

On December 21, 2006 HYIC issued its Fiscal 2007 Series A Senior Revenue Bonds ("FY07 Bonds") in the amount of $2 billion, to partially finance the Project. The FY07 Bonds are term bonds with semiannual interest payment dates beginning on August 15, 2007 and maturing on February 15, 2047. On October 26,

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

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

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

The following summarizes the activities of HYIC for the years ended June 30, 2013, 2012 and 2011:

	2013	(Restated) 2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Revenues:					
Program revenue	$ 47,005	$ 30,630	$ 30,572	$ 16,375	$ 58
Other revenue	4,894	236,317	45,296	(231,423)	191,021
Total revenues	51,899	266,947	75,868	(215,048)	191,079
Expenses:					
Project	346,278	279,678	348,076	66,600	(68,398)
Bond Interest	140,393	122,624	85,652	17,769	36,972
Arbitrage rebate	-	(5,111)	(1,419)	5,111	(3,692)
Other	458	7,748	1,585	(7,290)	6,163
Total expenses	487,129	404,939	433,894	82,190	(28,955)
Change in net position	(435,230)	(137,992)	(358,026)	(297,238)	220,034
Net position (deficit) - beginning of year	(1,851,297)	(1,687,139)	(1,329,113)	(164,158)	(358,026)
Restatement of beginning net position (deficit)	-	(26,166)	-	26,166	(26,166)
Net position (deficit) - end of year	$ (2,286,527)	$ (1,851,297)	$ (1,687,139)	$ (435,230)	$ (164,158)

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

For the fiscal year ended June 30, 2013, program revenue was comprised of DIB, TEP and PILOMRT. The $16.4 million increase in fiscal year 2013 when compared to fiscal year 2012, was primarily due to the collection of $11.1 million in PILOMRT and the collection of $5.0 million more of TEP as new development progressed in the Project Area. For fiscal years June 30, 2012 and 2011, program revenue was only comprised of DIB and TEP.

Other revenue in fiscal year 2013 was comprised of a $3 million MTA rail yard study cost reimbursement pursuant to a Letter Agreement with the City dated May 25, 2010 and investments earnings. In fiscal year 2012 other revenue was primarily comprised of a $155.6 million grant from The City and $79.3 million of ISP. The fiscal year 2012 grant from The City was used to pay HYIC's fiscal year 2013 debt service and resulted in no need for an ISP contribution from The City in fiscal year 2013.

Project expenses incurred during fiscal year 2013 were approximately $346.3 million compared to fiscal year 2012 when HYIC incurred approximately $279.7 million. Subway extension expenses increased by $9.0 million as tunnel outfitting increased. However, the majority of the increase was due to the elimination of a previously accrued contingent liability in the amount of $60.4 million in fiscal year 2012 for condemnation claims, as discussed below.

Project expenses incurred during fiscal year 2012 were approximately $279.7 million compared to fiscal year 2011 when HYIC incurred approximately $348.1 million. Subway extension expenses increased by approximately $40 million as tunnel outfitting increased. The subway project increase was more than offset by the decrease of $108 million in land acquisition and public amenities cost, as a determination in favor of HYIC that was issued by the New York Supreme Court eliminated a previously accrued contingent liability in the amount of $60.4 million for additional condemnation costs.

Bond interest expense increased in fiscal years 2013 and 2012 due to the issuance of bonds in October 2011.

The decrease in investment earnings caused a decrease in arbitrage rebate expense in fiscal year 2012 and fiscal year 2011. Arbitrage is the estimated amount of interest earnings on bond proceeds above the yield of HYIC tax exempt bonds, which HYIC expects to rebate to the United States Internal Revenue Service in the future. Because "negative arbitrage" in one year can offset arbitrage earned in earlier periods, it can reduce previously recorded arbitrage liabilities.

Other expenses in fiscal year 2013 were only comprised of general and administrative expenses. The implementation of GASB 65 required HYIC to restate its fiscal 2012 financial statements to include the effect of issuance costs amounts in its government-wide financial statements in the period incurred. Pursuant to GASB 65 $7.1 million of bond issuance costs were recognized as an expense in fiscal year 2012 as HYIC issued its FY12 Bonds during fiscal year 2012. These costs were previously reported as an asset.

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

The following summarizes HYIC's assets, liabilities and net position (deficit) as of June 30, 2013, 2012 and 2011:

	2013	(Restated) 2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Assets:					
Non-capital	$ 958,542	$ 1,398,421	$ 581,638	$ (439,879)	$ 816,783
Total assets	958,542	1,398,421	581,638	(439,879)	816,783
Liabilities:					
Current liabilities	129,713	130,783	118,385	(1,070)	12,398
Long-term liabilities	3,115,356	3,118,935	2,150,392	(3,579)	968,543
Total liabilities	3,245,069	3,249,718	2,268,777	(4,649)	980,941
Net position (deficit):					
Restricted	560,012	906,497	161,963	(346,485)	744,534
Unrestricted	(2,846,539)	(2,757,794)	(1,849,102)	(88,745)	(908,692)
Total net position (deficit)	$ (2,286,527)	$ (1,851,297)	$ (1,687,139)	$ (435,230)	$ (164,158)

Total assets at June 30, 2013 were lower than 2012 as a result of bond proceeds having been drawn-down to pay the Project costs. Total assets at June 30, 2012 were greater than 2011 due to the deposit of proceeds from the issuance of $1 billion of bonds. This increase was offset by the removal of $32.2 million of unamortized costs of issuance pursuant to GASB 65.

The capital assets being financed by HYIC are owned by The City; therefore, they do not appear on the financial statements of HYIC.

Current liabilities increased by $12.3 million at the end of fiscal year 2012 primarily because of increased accrued bond interest expense from the issuance of FY12 Bonds.

Long-term liabilities decreased in fiscal year 2013 when compared to fiscal year 2012 because of bond premium amortization. The substantial increase in fiscal year 2012 was because of the issuance of $1 billion of bonds, as previously discussed.

The large negative unrestricted and total net position (deficit) balances at June 30, 2013, 2012 and 2011 were primarily due to the issuance of bonds that will be repaid from future revenues.

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

HYIC reports governmental activity using three funds: (1) a general fund ("GF"), (2) a debt service fund ("DSF"), and (3) a capital projects fund ("CPF"). In fiscal year 2011, HYIC implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). GASB 54 resulted in the creation of a general fund and the restatement of those activities that were formerly presented in the debt service fund and now reported in a general fund. HYIC now accounts for and reports in the GF its administrative and operating expenditures along with the portion of revenues and accumulated resources used or held for use to pay for those operating activities, pursuant to the Indenture.

The following summarizes the changes in the GF balances for the years ended June 30, 2013, 2012, and 2011:

	2013	2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Revenues:					
Program revenue	$ 789	$ 1,068	$ 13,091	$ (279)	$ (12,023)
Other revenue	2	31	118	(29)	(87)
Total revenues	791	1,099	13,209	(308)	(12,110)
Expenditures	458	9,519	837	(9,061)	8,682
Other financing uses	(16,698)	(252)	-	(16,446)	(252)
Net change in fund balance	(16,365)	(8,672)	12,372	(7,693)	(21,044)
Fund balance - beginning of year	16,685	25,357	12,985	(8,672)	12,372
Fund balance - end of year	$ 320	$ 16,685	$ 25,357	$ (16,365)	$ (8,672)

The amount of program revenue deposited in the GF was based on the projected administrative and arbitrage rebate expenditures. Other revenue was comprised of interest income which decreased in fiscal year 2012 due to lower interest rates. The large expenditure amount reported during fiscal year 2012 was primarily due to an $8.8 million arbitrage payment to the United States Treasury.

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

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

The following summarizes the changes in the DSF balances for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Revenues:					
Program revenue	$ 46,216	$ 29,562	$ 17,481	$ 16,654	$ 12,081
Other revenue	3,157	234,939	42,670	(231,782)	192,269
Total revenues	49,373	264,501	60,151	(215,128)	204,350
Expenditures	143,848	105,065	88,223	38,783	16,842
Other financing sources	18,640	1,261	30,495	17,379	(29,234)
Net change in fund balance	(75,835)	160,697	2,423	(236,532)	158,274
Fund balance - beginning of year	400,826	240,129	237,706	160,697	2,423
Fund balance - end of year	$ 324,991	$ 400,826	$ 240,129	$ (75,835)	$ 160,697

All program revenue, except that required to pay administrative and operating expenditures, was deposited into the DSF, as previously discussed. The $16.7 million increase in fiscal year 2013 when compared to fiscal year 2012 was primarily due to the collection of $11.1 million in PILOMRT and the collection of $5.0 million more of TEP, as new development progressed in the Project Area. For fiscal years June 30, 2012 and 2011, program revenue was only comprised of DIB and TEP.

Other revenue in fiscal year 2013 was comprised of an MTA expense reimbursement and investment earnings, as previously discussed. In fiscal year 2012, other revenue was primarily comprised of a $155.6 million grant from The City and $79.3 million of ISP. The increase in fiscal year 2012 was mainly due to the grant, as previously discussed.

The DSF expenditures increased in fiscal years 2013 and 2012 due to the issuance of the FY12 Bonds.

The increase in other financing sources in fiscal year 2013 when compared to fiscal year 2012 was due to the transfer of $16.7 million from the general fund of resources not needed for arbitrage, as previously discussed. The decrease in other financing sources in fiscal year 2012 was primarily due to the expiration of high interest rate bearing flexible repurchase agreements. The interest was transferred to the DSF from the CPF, to be used to pay debt service, in accordance with the terms of the Indenture.

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

The following summarizes the changes in the CPF balances for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Revenues	$ 1,735	$ 1,347	$ 2,508	$ 388	$ (1,161)
Expenditures:					
Project /Cost of Issuance	346,402	345,661	347,996	741	(2,335)
Total expenditures	346,402	345,661	347,996	741	(2,335)
Other financing sources (uses) net	(1,942)	1,029,918	(30,495)	(1,031,860)	1,060,413
Net change in fund balance	(346,609)	685,604	(375,983)	(1,032,213)	1,061,587
Fund balance - beginning of year	907,974	222,370	598,353	685,604	(375,983)
Fund balance - end of year	$ 561,365	$ 907,974	$ 222,370	$ (346,609)	$ 685,604

The CPF revenues were comprised of investment earnings, and increased in fiscal year 2013 compared to fiscal year 2012 because of the increased balance of bond proceeds resulting from the issuance of the FY12 Bonds. Revenues decreased in fiscal year 2012 compared to fiscal year 2011 due to the expiration of high interest rate bearing flexible repurchase agreements.

Other financing sources (uses) net, during fiscal year 2012 primarily reflected the bond proceeds from the issuance of the FY12 Bonds. Other financing uses during fiscal years 2013 and 2011 reflected the transfer of interest collected on unspent bond proceeds from the CPF to the DSF, to be used to pay debt service, in accordance with the terms of the Indenture.

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

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2013, 2012 and 2011:

	2013	2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Assets:					
Cash equivalents and investments	$ 196	$ 16,562	$ 25,236	$ (16,366)	$ (8,674)
Prepaid Insurance	153	151	151	2	-
Total assets	$ 349	$ 16,713	$ 25,387	$ (16,364)	$ (8,674)
Liabilities:					
Accounts Payable	$ 29	$ 28	$ 30	$ 1	$ (2)
Total liabilities	29	28	30	1	(2)
Fund Balances:					
Nonspendable prepaid expense	153	151	151	2	-
Assigned to arbitrage payment	-	16,365	24,964	(16,365)	(8,599)
Unassigned	167	169	242	(2)	(73)
Total fund balances	320	16,685	25,357	(16,365)	(8,672)
Total liabilities and fund balances	$ 349	$ 16,713	$ 25,387	$ (16,364)	$ (8,674)

The GF total assets decreased by $16.4 million in fiscal year 2013, as resources not needed to pay arbitrage liabilities were transferred to the debt service fund, as previously discussed. The GF total assets decreased by $8.7 million in fiscal year 2012, as an arbitrage rebate payment of $8.8 million was made to the United States Treasury.

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, 2013, 2012 and 2011:

	2013	2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Assets:					
Restricted cash equivalents and investments	$ 72,392	$ 157,679	$ 6,448	$ (85,287)	$ 151,231
Transferable development rights	252,235	242,958	233,681	9,277	9,277
Due from capital projects fund	364	189	-	175	189
Total assets	$ 324,991	$ 400,826	$ 240,129	$ (75,835)	$ 160,697
Fund Balances:					
Restricted	324,991	400,826	240,129	(75,835)	160,697
Total fund balances	324,991	400,826	240,129	(75,835)	160,697
Total liabilities and fund balances	$ 324,991	$ 400,826	$ 240,129	$ (75,835)	$ 160,697

The DSF restricted cash equivalents and investments were higher in fiscal year 2012 because of a $155 million grant from The City, as previously discussed. The decrease in the DSF restricted cash equivalents and investments in fiscal year 2013 reflected the use of the fiscal year 2012 grant to pay debt service as intended.

The TDRs were higher at June 30, 2013 and 2012, because of the increase in the value of the TDRs which were incurred during the year. The increase in the value of the TDRs reflects the addition of cost of borrowed funds used to purchase the TDRs, which HYIC is entitled to recover when the TDRs are sold.

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, 2013, 2012 and 2011:

	2013	2012	2011	Change 2013 vs 2012	Change 2012 vs 2011
Assets:					
Restricted cash equivalents and investments	$ 633,566	$ 981,071	$ 289,956	$ (347,505)	$ 691,115
Total assets	$ 633,566	$ 981,071	$ 289,956	$ (347,505)	$ 691,115
Liabilities:					
Project	$ 71,837	$ 72,908	$ 67,586	$ (1,071)	$ 5,322
Due to debt service fund	364	189	-	175	189
Total liabilities	72,201	73,097	67,586	(896)	5,511
Fund balances:					
Restricted	561,365	907,974	222,370	(346,609)	685,604
Total fund balances	561,365	907,974	222,370	(346,609)	685,604
Total liabilities and fund balances	$ 633,566	$ 981,071	$ 289,956	$ (347,505)	$ 691,115

CPF assets on hand at June 30, 2013, 2012, and 2011 represented unspent bond proceeds. The decrease in fund balances in fiscal year 2013 reflected project expenditures made during that year. The increase in fund balances in fiscal year 2012 was due to bond proceeds from the issuance of 2012 Series A bonds.

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 Raymond Orlando, Manager of Investor Relations, Hudson Yards Infrastructure Corporation, 255 Greenwich Street, New York, NY 10007.

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HUDSON YARDS INFRASTRUCTURE CORPORATION
(A Component Unit of The City of New York)

STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2013 AND 2012 (amounts in thousands)

	2013	(Restated) 2012
ASSETS:		
Unrestricted cash equivalents	$ 196	$ 197
Restricted cash equivalents	113,529	217,506
Unrestricted investments	-	16,365
Restricted investments	592,429	921,243
Interest receivable	-	1
Prepaid insurance	153	151
Transferable development rights	252,235	242,958
Total assets	958,542	1,398,421
LIABILITIES:		
Project costs payable	60,265	57,630
Accrued expenses	29	28
Payable to The City of New York	11,335	15,180
Payable to Hudson Yards Development Corporation	204	51
Payable to New York City Economic Development Corporation	33	47
Accrued bond interest payable	57,847	57,847
Contingent liabilities	1,353	1,477
Long-term debt:		
Portion due after one year	3,000,000	3,000,000
Unamortized bond premium	114,003	117,458
Total liabilities	3,245,069	3,249,718
NET POSITION (DEFICIT):		
Restricted for capital projects	560,012	906,497
Unrestricted (deficit)	(2,846,539)	(2,757,794)
Total net position (deficit)	$ (2,286,527)	$ (1,851,297)

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
(A Component Unit of The City of New York)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (amounts in thousands)

	2013	(Restated) 2012
REVENUES:		
District improvement bonus revenue	$ 3,261	$ 2,951
Tax equivalency payment revenue	32,647	27,679
PILOMRT revenue	11,097	-
Grant from The City of New York	-	155,595
Interest support payment revenue	-	79,347
Other revenue	3,075	-
Investment income	1,819	1,375
Total revenues	51,899	266,947
EXPENSES:		
Project - subway extension	325,414	316,439
Project - land acquisition and public amenities	18,884	(39,787)
Project - transfer to Hudson Yards Development Corporation	1,980	3,026
Bond interest	140,393	122,624
Arbitrage rebate	-	(5,111)
Cost of bond issuance		7,053
General and administrative	458	695
Total expenses	487,129	404,939
CHANGE IN NET POSITION	(435,230)	(137,992)
NET POSITION (DEFICIT) - Beginning of year	(1,851,297)	(1,687,139)
Restatement of beginning net position (Note 2)	-	(26,166)
NET POSITION (DEFICIT) - End of year	$ (2,286,527)	$ (1,851,297)

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
(A Component Unit of The City of New York)

GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2013 (amounts in thousands)

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

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

GOVERNMENTAL FUNDS BALANCE SHEET
AS OF JUNE 30, 2012 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 197	$ -	$ -	$ 197
Restricted cash equivalents	-	80,307	137,199	217,506
Unrestricted investments	16,365	-	-	16,365
Restricted investments	-	77,372	843,871	921,243
Interest receivable	-	-	1	1
Due from Capital Projects Fund	-	189	-	189
Prepaid insurance	151	-	-	151
Transferable development rights	-	242,958	-	242,958
Total assets	$ 16,713	$ 400,826	$ 981,071	$ 1,398,610
LIABILITIES:				
Project costs payable	$ -	$ -	$ 57,630	$ 57,630
Accounts payable	28	-	-	28
Due to Debt Service Fund	-	-	189	189
Payable to The City of New York	-	-	15,180	15,180
Payable to Hudson Yards Development Corporation	-	-	51	51
Payable to New York City Economic Development Corporation	-	-	47	47
Total liabilities	28	-	73,097	73,125
FUND BALANCES:				
Nonspendable prepaid expense	151	-	-	151
Restricted for:				
Debt Service	-	400,826	-	400,826
Capital Projects	-	-	907,974	907,974
Assigned to arbitrage rebate payment	16,365	-	-	16,365
Unassigned	169	-	-	169
Total fund balances	16,685	400,826	907,974	1,325,485
Total liabilities and fund balances	$ 16,713	$ 400,826	$ 981,071	$ 1,398,610

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
(A Component Unit of The City of New York)

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2013 AND 2012 (amounts in thousands)

	2013	(Restated) 2012
Total fund balances - governmental funds	$ 886,676	$ 1,325,485
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. 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.	(114,003)	(117,458)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements, but are reported in the statements of net position (deficit). Those liabilities are:		
Bonds payable	(3,000,000)	(3,000,000)
Accrued bond interest payable	(57,847)	(57,847)
Contingent liabilities	(1,353)	(1,477)
Net position (deficit) - governmental activities	$ (2,286,527)	$ (1,851,297)

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2013 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ -	$ 3,261	$ -	$ 3,261
Tax equivalency payment revenue	789	31,858	-	32,647
PILOMRT revenue	-	11,097		11,097
Other revenue	-	3,075	-	3,075
Investment income	2	82	1,735	1,819
Total revenues	791	49,373	1,735	51,899
EXPENDITURES:				
Project - subway extension	-	-	325,414	325,414
Project - land acquisition and public amenities	-	-	19,008	19,008
Project - transfers to Hudson Yards Development Corporation	-	-	1,980	1,980
Bond interest	-	143,848	-	143,848
General and administrative	458	-	-	458
Total expenditures	458	143,848	346,402	490,708
OTHER FINANCING SOURCES (USES):				
Transfers (from capital projects fund) to debt service fund	-	1,942	(1,942)	-
Transfer (from general fund) to debt service fund	(16,698)	16,698	-	-
Total other financing sources (uses)	(16,698)	18,640	(1,942)	-
NET CHANGE IN FUND BALANCES	(16,365)	(75,835)	(346,609)	(438,809)
FUND BALANCES - Beginning of year	16,685	400,826	907,974	1,325,485
FUND BALANCES - End of year	$ 320	$ 324,991	$ 561,365	$ 886,676

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ -	$ 2,951	$ -	$ 2,951
Tax equivalency payment revenue	1,068	26,611	-	27,679
Grant from The City New York	-	155,595	-	155,595
Interest support payment revenue	-	79,347	-	79,347
Investment income	31	(3)	1,347	1,375
Total revenues	1,099	264,501	1,347	266,947
EXPENDITURES:				
Project - subway extension	-	-	316,439	316,439
Project - land acquisition and public amenities	-	-	19,143	19,143
Project - transfers to Hudson Yards Development Corporation	-	-	3,026	3,026
Bond interest	-	105,065	-	105,065
General and administrative	9,519	-	-	9,519
Costs of bond issuance		-	7,053	7,053
Total expenditures	9,519	105,065	345,661	460,245
OTHER FINANCING SOURCES (USES):				
Principal Amount of Bonds Issued	-	-	1,000,000	1,000,000
Bond Premium	-	-	30,927	30,927
Transfers (from capital projects fund) to debt service fund	-	1,009	(1,009)	-
Transfer (from general fund) to debt service fund	(252)	252	-	-
Total other financing sources (uses)	(252)	1,261	1,029,918	1,030,927
NET CHANGE IN FUND BALANCES	(8,672)	160,697	685,604	837,629
FUND BALANCES - Beginning of year	25,357	240,129	222,370	487,856
FUND BALANCES - End of year	$ 16,685	$ 400,826	$ 907,974	$ 1,325,485

See notes to financial statements.

HUDSON YARDS INFRASTRUCTURE CORPORATION
(A Component Unit of The City of New York)

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, 2013 AND 2012 (amounts in thousands)

	2013	(Restated) 2012
Net change fund balances - total governmental funds	$ (438,809)	$ 837,629
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.	-	(1,000,000)
Governmental funds report bond premiums as other financing sources. However, on the statement of activities, premiums are amortized over the life of the debt.	-	(30,927)
Governmental funds report bond premiums as other financing sources upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	3,455	(17,559)
Arbitrage earnings rebatable to the Federal government are reported on the statements of activities on an accrual basis. However, arbitrage expenditures are reported in governmental funds when the outlay of financial resources is due.	-	13,935
Contingent liabilities are reported on the statement of activities on the accrual basis. However, contingent expenditures are reported in the governmental funds when the outlay of current financial resources is due.	124	58,930
Change in net position (deficit) - governmental activities	$ (435,230)	$ (137,992)

See notes to financial statements.

1. ORGANIZATION

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

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from The City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Fund Balance

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents

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

Capital Assets

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

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

Revenues

HYIC revenues include and/or will include:

(1) Interest Support Payments ("ISP") are made by The City under the terms of the Support and Development Agreement ("Agreement") that obligates The City to pay to HYIC, subject to annual appropriation, ISP on up to $3 billion of HYIC bonds issued prior to the Conversion Date (described below), for so long as such bonds are outstanding, in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds;

(2) Payments in lieu of real estate taxes ("PILOT") which have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), The City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements");

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Arbitrage Rebate

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

As of June 30, 2011, HYIC had accrued approximately $13.9 million as an estimated arbitrage rebate obligation. During fiscal year 2012, HYIC made an arbitrage rebate payment to the United States Treasury for its required arbitrage obligation of approximately $8.8 million. The difference of approximately $5.1 million between what was accrued in prior years and what was paid in fiscal year 2012 was reflected as an arbitrage rebate credit in the government-wide financial statements. The annual estimated arbitrage obligation was accrued each year on the government-wide financial statements, but was not reported as an expenditure in the governmental fund financial statements until fiscal year 2012 when the actual payment was made to the Federal government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Premium and Issuance Costs

Bond premium is capitalized and amortized over the lives of the related debt using the interest method in the government-wide financial statements. With the implementation of GASB 65 (discussed below) bond issuance costs are recognized as expenses in the period incurred. The amounts of unamortized bond premium at June 30, 2013 and 2012 were $114,003 and $117,458, respectively, which were net of accumulated amortization of $19,764 and $16,309, respectively.

Use of Estimates

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

Recent Accounting Pronouncements

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

- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* ("GASB 60"). GASB 60 establishes the financial reporting for service concession agreements, which are a type of public-private or public-public partnership. GASB 60 is effective for financial statement periods beginning after December 15, 2011. As HYIC has not entered into any service concession agreements, GASB 60 does not have an impact on HYIC's financial statements.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34* ("GASB 61"). GASB 61 amends existing standards relating to the composition and reporting of the governmental financial reporting entity. GASB 61 is effective for financial statement periods beginning after June 15, 2012. GASB 61 does not have an impact on HYIC or its status as a blended component unit of The City.
- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements* ("GASB 62"). GASB 62 incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for US state and local governments. GASB 62 is effective for financial statement periods beginning after December 15, 2011. GASB 62 does not have an impact on HYIC's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). GASB 63 establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. GASB 63 is effective for financial statement periods beginning after December 15, 2011. HYIC has implemented GASB 63 in fiscal year 2013 and as a result it has renamed its financial statements to the Statement of Net Position and components thereof, with no financial impact.

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

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

- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). GASB 67 establishes financial reporting standards for defined benefit pensions and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013. GASB 67 will not have an impact on its financial statements as HYIC is not an applicable pension administered entity.

AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. CASH AND CASH EQUIVALENTS

As of June 30, 2013 and 2012, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of U.S. Treasury Money Market Funds and commercial paper maturing within 90 days, primarily restricted for capital projects. HYIC's cash and cash equivalents consisted of the following at June 30, 2013 and 2012:

	2013	2012
Cash	$ -	$ -
Cash Equivalents (see Note 4)	113,725	217,703
Total Cash and Cash Equivalents	$ 113,725	$ 217,703

AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (amounts in thousands, except as noted)

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2013 and 2012:

	2013	2012
Unrestricted:		
U.S. Treasury Money Market Funds	$ 196	$ 197
U.S. Treasury Bills (maturing within one year)	-	16,365
Total Unrestricted	196	16,562
Restricted for Debt Service:		
U.S. Treasury Money Market Funds	731	3,311
U.S. Treasury Bills (maturing within one year)	-	154,368
Federal Home Loan Bank discount notes (maturing within one year)	18,802	-
Federal National Mortgage Association discount note (maturing within one year)	17,954	-
Federal National Mortgage Association medium term note (maturing within one year)	34,904	-
Total Restricted for Debt Service	72,391	157,679
Restricted for Capital Projects:		
U.S. Treasury Money Market Funds	93,996	94,375
Commercial Paper (maturing within 90 days)	-	42,824
Commercial Paper (maturing after 90 days)	426,011	419,032
Federal Farm Credit Bank discount notes (maturing within one year)	-	24,993
Federal Farm Credit Bank Bond (maturing after one year)	13,640	-
Federal National Mortgage Association discount notes (maturing within one year)	-	149,962
U.S. Treasury Bills (maturing within one year)	49,992	249,884
U.S. Treasury Bills (maturing after one year)	49,928	-
Total Restricted for Capital Project	633,567	981,070
Total Investments including cash equivalents	706,154	1,155,311
Less amounts reported as cash equivalents (see Note 3)	(113,725)	(217,703)
Total Investments	$ 592,429	$ 937,608

4. INVESTMENTS (continued)

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

Custodial Credit Risk

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

Credit Risk

All investments held by HYIC at June 30, 2013 and 2012 are obligations of, or guaranteed by, the United States of America; or are invested in Federal National Mortgage Association securities, and/or Federal Farm Credit Bank, which are rated by S&P AA+, Moody Aaa, and Fitch AAA; and Federal Home Loan Bank securities, which is rated by S&P AA+ and Moodys Aaa; money market funds which are rated by S&P AAA and Moodys Aaa; and commercial paper that is rated in the highest category by at least two rating agencies.

Interest Rate Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of HYIC's investments in a single issuer (5% or more). HYIC's investment policy places no limits, except for securities, on the amount HYIC may invest in any one issuer of eligible investments as defined in the Indenture. As of June 30, 2013, HYIC's investments are in eligible government obligations and commercial paper. These are 40% and 60% of HYIC total investments, respectively.

5. TRANSFERABLE DEVELOPMENT RIGHTS

HYIC acquired a 50% interest in Eastern Rail Yards Transferable Development Rights ("TDRs") for the purpose of resale, under an agreement among The City, the MTA, the Triborough Bridge and Tunnel Authority and the Long Island Rail Road Company ("TDR Agreement"). The purchase by developers of TDRs will permit the construction of buildings of larger size than would otherwise be permissible as-of-right under applicable zoning law. Proceeds received by HYIC for sales of the TDRs, up to the

5. TRANSFERABLE DEVELOPMENT RIGHTS (continued)

amount of HYIC's investment (including the $200 million total purchase price and interest costs thereon) will be used by HYIC to support its operations and service its debt. Under the terms of the TDR Agreement, HYIC made the initial installment payment of $100,000 in fiscal year 2007, and was required to make three more annual payments of $33,333 in September of 2007, 2008 and 2009 for this interest of which all the payments were made. The full value of the TDRs, including, the full purchase price and HYIC's cost of funds, is reflected as an asset in the governmental funds balance sheets and in the statements of net position (deficit).

6. LONG-TERM LIABILITIES

Changes in Long-term Liabilities

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

Interest on the Series 2007A Bonds and Series 2012A Bonds is payable semiannually on February 15 and August 15. Payments of principal on the Series 2007A Bonds and the Series 2012A Bonds will be made by HYIC from revenues and TDRs sale proceeds received as a result of development in the Hudson Yards Financing District. Prior to the Conversion Date (discussed in Note 2), HYIC is not obligated to make any payments of principal on the bonds prior to maturity unless and until – and to the extent that – HYIC receives revenues and TDRs sale proceeds in amounts sufficient to make such payments. After the first call date (February 15, 2017) for the bonds and prior to the Conversion Date, all revenues remaining after funding expenses and interest must be used to purchase or redeem Series bonds after funding interest on senior and subordinate bonds for the subsequent fiscal year (except that, if The City has made ISPs during such fiscal year, then HYIC must first reimburse The City for such ISPs). The Indenture specifies that a schedule of sinking fund installments must be established for the bonds no later than the June 30th following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.75%.

AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012 (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

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

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

A summary of changes in outstanding bonds and other long term debt during the year ended June 30, 2012 follows:

		Period Ended June 30, 2012			
Series	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Fiscal 2007 Series A	$ 2,000,000	$ -	$ -	$ 2,000,000	$ -
Fiscal 2012 Series A	-	1,000,000	-	1,000,000	-
Total Long-term Debt	$ 2,000,000	$ 1,000,000	$ -	$ 3,000,000	$ -

Debt service requirements on bonds, including principal and interest, at June 30, 2013, are as follows:

Years Ended June 30,	Principal	Interest	Total
2014	$ -	$ 153,125	$ 153,125
2015	-	153,125	153,125
2016	-	153,125	153,125
2017	-	153,125	153,125
2018	-	153,125	153,125
2019 to 2023	-	765,625	765,625
2024 to 2028	-	765,625	765,625
2029 to 2033	-	765,625	765,625
2034 to 2038	-	765,625	765,625
2039 to 2043	-	765,625	765,625
2044 to 2047	3,000,000	459,375	3,459,375
Totals	$ 3,000,000	$ 5,053,125	$ 8,053,125

6. LONG-TERM LIABILITIES (continued)

Claims and Litigation

As of June 30, 2011, The City was a defendant in several condemnation proceedings pertaining to the Hudson Yards Project. The potential future liability attributable to claims asserted in such condemnation proceedings was estimated to be $60 million, which was HYIC's best estimate as of the end of fiscal year 2011, based upon available information. In September 2011, the New York State Supreme Court (the "Court") issued a determination that the Claimants' appraisals had relied upon an erroneous zoning assumption. The Claimants have appealed the Court's determination to the Appellate Division for the First Department and have not submitted revised appraisals. In view of the aforesaid determination by the Court and the Claimants' appeal thereof, the Corporation's potential liability as of June 30, 2013 and 2012, if any, with respect to these claims cannot be estimated. HYIC reversed the $60 million liability accrual in fiscal year 2012, resulting in a project expense credit of $39.8 million being reported in the government-wide financial statements.

During the fiscal year ended June 30, 2012, a new claimant, who was not a party to the above proceedings, filed suit related to valuation as part of condemnation proceedings. As such, an accrual of approximately $1.4 million has been recorded as of June 30, 2013 and 2012 until such time that a determination is made with regards to the claim. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

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