



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, 2015 and 2014

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**HUDSON YARDS INFRASTRUCTURE CORPORATION**

**FINANCIAL STATEMENTS  
(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2015 AND 2014**

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## 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, 2015 and 2014, 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, 2015 and 2014, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



### *Other Matters*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 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 25, 2015

# **HUDSON YARDS INFRASTRUCTURE CORPORATION**

(A Component Unit of The City of New York)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited)**

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### **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, 2015 and 2014 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<sup>rd</sup> Street on the north, Twelfth Avenue on the west and West 29<sup>th</sup> and 30<sup>th</sup> 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<sup>th</sup> Avenue and 41<sup>st</sup> Street to a new station at 11<sup>th</sup> Avenue and West 34<sup>th</sup> 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<sup>th</sup> and West 33<sup>rd</sup> 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.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited) (continued)**

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### ORGANIZATIONAL OVERVIEW (continued)

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

Proceeds received by HYIC for sales of the TDRs (as discussed in Note 5), up to the amount of HYIC's investment (including the \$200 million purchase price and interest costs thereon), will also be used by HYIC to support its operations and service its debt.

The Conversion Date is the date on which HYIC certifies that, for each of the two preceding fiscal years, HYIC's PILOT payments plus TEP revenues less HYIC's operating expenses ("Net Recurring Revenues") were not less than 125% of the maximum annual debt service on all then-outstanding 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 30<sup>th</sup> 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,

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited) (continued)

### 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.

The following summarizes the activities of HYIC for the years ended June 30, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Revenues:					
Program revenue	\$ 246,251	\$ 63,253	\$ 47,005	\$ 182,998	\$ 16,248
Other revenue	33,626	41,495	4,894	(7,869)	36,601
Total revenues	<u>279,877</u>	<u>104,748</u>	<u>51,899</u>	<u>175,129</u>	<u>52,849</u>
Expenses:					
Project	98,799	268,597	346,278	(169,798)	(77,681)
Bond interest	129,359	140,393	140,393	(11,034)	-
Other	514	435	458	79	(23)
Total expenses	<u>228,672</u>	<u>409,425</u>	<u>487,129</u>	<u>(180,753)</u>	<u>(77,704)</u>
Change in net position	51,205	(304,677)	(435,230)	355,882	130,553
Net position (deficit) - beginning of year	<u>(2,591,204)</u>	<u>(2,286,527)</u>	<u>(1,851,297)</u>	<u>(304,677)</u>	<u>(435,230)</u>
Net position (deficit) - end of year	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>	<u>\$ (2,286,527)</u>	<u>\$ 51,205</u>	<u>\$ (304,677)</u>

Program revenue in fiscal year 2015 increased by \$183 million due to the collection of more DIB, as development progresses in the Project Area. Other revenue decreased by \$7.9 million in fiscal year 2015 because of \$10.1 million less in ISP, which was offset by \$2.5 million more of other non-recurring income. Other revenue in fiscal year 2014 included ISP, a MTA rail yard study cost reimbursement pursuant to a Letter Agreement with the City dated May 25, 2010, and investment earnings. The \$36.6 million increase in fiscal year 2014 was due to the collection of \$38.1 million in ISP. The increase was offset by \$0.9 million less in study cost reimbursement and \$0.6 million less in investment earnings.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited) (continued)**

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

Project expenses incurred during fiscal year 2015 was approximately \$98.8 million compared to fiscal year 2014, when HYIC incurred approximately \$269 million. The \$170 million decrease was due to \$67.8 million less in subway extension expenses as the subway construction progresses to completion; and a \$101 million decrease in land acquisition and public amenities costs comprising of a \$73.9 million contingency liability accrual recorded in fiscal year 2014, which was decreased in fiscal year 2015 by \$29.8 million due to settlement discussions and claimants submitting amended appraisals in fiscal year 2015 (see Note 6).

Project expenses incurred during fiscal year 2014 were approximately \$269 million compared to fiscal year 2013, when HYIC incurred approximately \$346 million. The \$77.7 million decrease was due to \$150 million less in subway extension expenses as the majority of the subway construction work has been completed. The large decrease in subway extension expenses in relation with total Project expenses was offset by a \$72.2 million increase in land acquisition costs. In fiscal year 2014, HYIC accrued a \$73.9 million contingent liability for condemnation claims. In fiscal year 2013, the Appellate Division affirmed the trial court's decision. The claimants had indicated that resolution of the zoning issue would resolve their claims. Therefore, without valid claimant appraisals, there was no basis for the City or HYIC to determine if and/or in what amounts additional condemnation compensation may have been payable. However, in fiscal year 2014, some claimants submitted amended appraisals based on the appropriate zoning assumptions, which will be litigated. As such, HYIC estimated and accrued for the potential future liability resulting from such condemnation proceedings (see Note 6).

Bond interest expense decreased by \$11.0 million in fiscal year 2015. Bond interest expense is offset by the interest cost of borrowed funds used to purchase the TDRs, which become part of TDRs asset value (see Note 5).



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited) (continued)

### 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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Assets:					
Non-capital	<u>\$ 702,888</u>	<u>\$ 693,927</u>	<u>\$ 958,542</u>	<u>\$ 8,961</u>	<u>\$ (264,615)</u>
Total assets	<u>702,888</u>	<u>693,927</u>	<u>958,542</u>	<u>8,961</u>	<u>(264,615)</u>
Liabilities:					
Current liabilities	<u>86,230</u>	<u>95,757</u>	<u>129,713</u>	<u>(9,527)</u>	<u>(33,956)</u>
Long-term liabilities	<u>3,154,166</u>	<u>3,187,424</u>	<u>3,115,356</u>	<u>(33,258)</u>	<u>72,068</u>
Total liabilities	<u>3,240,396</u>	<u>3,283,181</u>	<u>3,245,069</u>	<u>(42,785)</u>	<u>38,112</u>
Deferred inflows of resources:					
Prepaid PILOT	<u>2,491</u>	<u>1,950</u>	<u>-</u>	<u>541</u>	<u>1,950</u>
Total deferred inflows of resources	<u>2,491</u>	<u>1,950</u>	<u>-</u>	<u>541</u>	<u>1,950</u>
Net position (deficit):					
Restricted	<u>192,907</u>	<u>291,447</u>	<u>560,012</u>	<u>(98,540)</u>	<u>(268,565)</u>
Unrestricted	<u>(2,732,906)</u>	<u>(2,882,651)</u>	<u>(2,846,539)</u>	<u>149,745</u>	<u>(36,112)</u>
Total net position (deficit)	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>	<u>\$ (2,286,527)</u>	<u>\$ 51,205</u>	<u>\$ (304,677)</u>

Total assets at June 30, 2015, increased by \$9.0 million because earned revenue in fiscal year 2015 was more than HYIC incurred expenses. Total assets in fiscal year 2014 were lower than fiscal year 2013 because bond proceeds were drawn-down to pay the Project costs. The capital assets being financed by HYIC are owned by the City; therefore, they do not appear on the financial statements of HYIC.

Current liabilities at June 30, 2015, were lower than fiscal year 2014 because project expenses decreased.

Long-term liabilities decreased in fiscal year 2015, because of a \$29.8 million adjustment to estimated accrued liability for those remaining claimants submitting amended appraisals in fiscal year 2015 as well as settlement discussions among the parties. Long-term liabilities increased in fiscal year 2014 when compared to fiscal year 2013 by \$72.1 million because of the estimated accrued contingent liability.

PILOT payments received for assessments owed in the following fiscal years are treated as prepaid amounts and reported as deferred inflows of resources.

The large negative unrestricted balances at June 30, 2015, 2014 and 2013 were primarily due to the issuance of bonds that will be repaid from future revenues.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (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, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Revenues:					
Program revenue	\$ 787	\$ 788	\$ 789	\$ (1)	\$ (1)
Other revenue	4,681	10	2	4,671	8
Total revenues	<u>5,468</u>	<u>798</u>	<u>791</u>	<u>4,670</u>	<u>7</u>
Expenditures	<u>514</u>	<u>435</u>	<u>458</u>	<u>79</u>	<u>(23)</u>
Other financing (uses)	<u>(278)</u>	<u>(363)</u>	<u>(16,698)</u>	<u>85</u>	<u>16,335</u>
Net change in fund balances	4,676	-	(16,365)	4,676	16,365
Fund balance - beginning of year	<u>320</u>	<u>320</u>	<u>16,685</u>	<u>-</u>	<u>(16,365)</u>
Fund balance - end of year	<u>\$ 4,996</u>	<u>\$ 320</u>	<u>\$ 320</u>	<u>\$ 4,676</u>	<u>\$ -</u>

The amount of program revenue deposited in the GF was based on projected administrative expenditures. Other revenue is comprised of non-recurring application fees associated with PILOT.

Operating expenditures between fiscal years fluctuates based on the allocated costs associated with management's time spent on conducting HYIC operations.

The decrease in other financing uses in fiscal year 2014 when compared to fiscal year 2013 was primarily due to the transfer of \$16.7 million to the DSF for resources not needed for arbitrage rebate payments to the Federal Government.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Revenues:					
Program revenue	\$ 245,464	\$ 62,465	\$ 46,216	\$ 182,999	\$ 16,249
Other revenue	27,864	40,404	3,157	(12,540)	37,247
Total revenues	<u>273,328</u>	<u>102,869</u>	<u>49,373</u>	<u>170,459</u>	<u>53,496</u>
Expenditures	<u>132,814</u>	<u>143,848</u>	<u>143,848</u>	<u>(11,034)</u>	<u>-</u>
Other financing sources	<u>1,100</u>	<u>1,412</u>	<u>18,640</u>	<u>(312)</u>	<u>(17,228)</u>
Net change in fund balances	141,614	(39,567)	(75,835)	181,181	36,268
Fund balance - beginning of year	<u>285,424</u>	<u>324,991</u>	<u>400,826</u>	<u>(39,567)</u>	<u>(75,835)</u>
Fund balance - end of year	<u>\$ 427,038</u>	<u>\$ 285,424</u>	<u>\$ 324,991</u>	<u>\$ 141,614</u>	<u>\$ (39,567)</u>

Program revenue in fiscal year 2015 increased by \$183 million when compared to fiscal year 2014 because of the collection of \$182 million more of DIB as new development progressed in the Project Area. For fiscal years June 30, 2014, and June 30, 2013, program revenue was comprised of DIB, TEP and PILOMRT. The \$16.2 million increase in fiscal year 2014 when compared to fiscal year 2013, was primarily due to the collection of \$7.5 million more of DIB, \$5.9 million more of TEP, and \$2.8 million more of PILOMRT as new development continued to progress in the Project Area.

The decrease in other revenue in fiscal year 2015 was due to \$10.1 million less in interest support payments, as the collection of DIB, TEP, and PILOT provided greater offset to ISP than in the prior year. Other revenue in fiscal year 2014 primarily included ISP and a MTA rail yard study cost reimbursement pursuant to a Letter Agreement with the City dated May 25, 2010. The \$37.2 million increase in fiscal year 2014 was due to the collection of \$38.1 million in ISP. The increase was offset by \$0.9 million less in the study cost reimbursement.

Bond interest expense decreased by \$11.0 million in fiscal year 2015. Bond interest expense is offset by the interest cost of borrowed funds used to purchase the TDRs, which become part of TDRs asset value (see Note 5).

The decrease in other financing sources in fiscal year 2014 when compared to fiscal year 2013 was primarily due to the transfer of \$16.7 million from the GF of resources not needed for arbitrage rebate payments to the Federal Government.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited) (continued)

### 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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Revenues	<u>\$ 1,081</u>	<u>\$ 1,081</u>	<u>\$ 1,735</u>	<u>\$ -</u>	<u>\$ (654)</u>
Expenditures:					
Project costs	<u>128,602</u>	<u>193,074</u>	<u>346,402</u>	<u>(64,472)</u>	<u>(153,328)</u>
Other financing (uses)	<u>(822)</u>	<u>(1,049)</u>	<u>(1,942)</u>	<u>227</u>	<u>893</u>
Net change in fund balances	<u>(128,343)</u>	<u>(193,042)</u>	<u>(346,609)</u>	<u>64,699</u>	<u>153,567</u>
Fund balance - beginning of year	<u>368,323</u>	<u>561,365</u>	<u>907,974</u>	<u>(193,042)</u>	<u>(346,609)</u>
Fund balance - end of year	<u>\$ 239,980</u>	<u>\$ 368,323</u>	<u>\$ 561,365</u>	<u>\$ (128,343)</u>	<u>\$ (193,042)</u>

The CPF revenues are comprised of interest earnings.

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

Other financing uses during fiscal years 2015, 2014 and 2013 reflected the transfer of interest collected on unspent bond proceeds from the CPF to the DSF, to be used to pay debt service, in accordance with the terms of the Indenture.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (unaudited) (continued)

### 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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Assets:					
Cash equivalents and investments	\$ 4,862	\$ 197	\$ 196	\$ 4,665	\$ 1
Prepaid Insurance	<u>154</u>	<u>154</u>	<u>153</u>	<u>-</u>	<u>1</u>
Total assets	<u>\$ 5,016</u>	<u>\$ 351</u>	<u>\$ 349</u>	<u>\$ 4,665</u>	<u>\$ 2</u>
Liabilities:	<u>\$ 20</u>	<u>\$ 31</u>	<u>\$ 29</u>	<u>\$ (11)</u>	<u>\$ 2</u>
Fund Balances:					
Nonspendable prepaid expense	154	154	153	-	1
Unassigned	<u>4,842</u>	<u>166</u>	<u>167</u>	<u>4,676</u>	<u>(1)</u>
Total fund balances	<u>4,996</u>	<u>320</u>	<u>320</u>	<u>4,676</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 5,016</u>	<u>\$ 351</u>	<u>\$ 349</u>	<u>\$ 4,665</u>	<u>\$ 2</u>

The GF assets in fiscal year 2015 increased by \$4.7 million due to the collection of application fees associated with PILOT.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Assets:					
Restricted cash equivalents and investments	\$ 237,998	\$ 25,607	\$ 72,392	\$ 212,391	\$ (46,785)
Transferable development rights	191,276	261,513	252,235	(70,237)	9,278
Due from capital projects fund	255	254	364	1	(110)
Total assets	<u>\$ 429,529</u>	<u>\$ 287,374</u>	<u>\$ 324,991</u>	<u>\$ 142,155</u>	<u>\$ (37,617)</u>
Deferred inflows of resources:					
Prepaid PILOT	\$ 2,491	\$ 1,950	\$ -	\$ 541	\$ 1,950
Fund balances:					
Restricted	427,038	285,424	324,991	141,614	(39,567)
Total fund balances	<u>427,038</u>	<u>285,424</u>	<u>324,991</u>	<u>141,614</u>	<u>(39,567)</u>
Total deferred inflows of resources and fund balances	<u>\$ 429,529</u>	<u>\$ 287,374</u>	<u>\$ 324,991</u>	<u>\$ 142,155</u>	<u>\$ (37,617)</u>

The \$142 million increase in the DSF total assets in fiscal year 2015 when compared to fiscal year 2014 was due to fiscal year 2015 revenue collections being greater than the debt service payments.

The \$37.6 million decrease in the DSF total assets in fiscal year 2014 when compared to fiscal year 2013 was due to fiscal year 2014 revenues collections being less than the debt service payments.

In fiscal year 2015 and 2014, HYIC received PILOT payments for assessments attributable to the next fiscal year; the prepaid amount is reported as a deferred inflows of resources.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Change 2015 vs 2014</u>	<u>Change 2014 vs 2013</u>
Assets:					
Restricted cash equivalents and investments	<u>\$ 268,598</u>	<u>\$ 406,456</u>	<u>\$ 633,566</u>	<u>\$ (137,858)</u>	<u>\$ (227,110)</u>
Total assets	<u>\$ 268,598</u>	<u>\$ 406,456</u>	<u>\$ 633,566</u>	<u>\$ (137,858)</u>	<u>\$ (227,110)</u>
Liabilities:					
Project	<u>\$ 28,363</u>	<u>\$ 37,879</u>	<u>\$ 71,837</u>	<u>\$ (9,516)</u>	<u>\$ (33,958)</u>
Due to debt service fund	<u>255</u>	<u>254</u>	<u>364</u>	<u>1</u>	<u>(110)</u>
Total liabilities	<u>28,618</u>	<u>38,133</u>	<u>72,201</u>	<u>(9,515)</u>	<u>(34,068)</u>
Fund balances:					
Restricted	<u>239,980</u>	<u>368,323</u>	<u>561,365</u>	<u>(128,343)</u>	<u>(193,042)</u>
Total fund balances	<u>239,980</u>	<u>368,323</u>	<u>561,365</u>	<u>(128,343)</u>	<u>(193,042)</u>
Total liabilities and fund balances	<u>\$ 268,598</u>	<u>\$ 406,456</u>	<u>\$ 633,566</u>	<u>\$ (137,858)</u>	<u>\$ (227,110)</u>

CPF assets on hand at June 30, 2015, 2014, and 2013 represented unspent bond proceeds. The decrease in fund balances each year reflected Project expenditures made during that year.

The decrease in Project expenditures resulted in the decrease of project liabilities in fiscal years 2015 and 2014.

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

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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, 2015 AND 2014 (amounts in thousands)

	<u>2015</u>	<u>2014</u>
ASSETS:		
Unrestricted cash equivalents	\$ 4,862	\$ 197
Restricted cash equivalents	47,046	104,650
Restricted investments	459,550	327,413
Prepaid insurance	154	154
Transferable development rights	191,276	261,513
	<u>702,888</u>	<u>693,927</u>
LIABILITIES:		
Project costs payable	26,006	33,494
Accrued expenses	20	31
Payable to The City of New York	2,233	4,338
Payable to Hudson Yards Development Corporation	124	47
Accrued bond interest payable	57,847	57,847
Contingent liabilities	47,073	76,876
Long-term debt:		
Portion due after one year	3,107,093	3,110,548
	<u>3,240,396</u>	<u>3,283,181</u>
DEFERRED INFLOWS OF RESOURCES:		
Prepaid PILOT	2,491	1,950
	<u>2,491</u>	<u>1,950</u>
NET POSITION (DEFICIT):		
Restricted for capital projects	192,907	291,447
Unrestricted (deficit)	(2,732,906)	(2,882,651)
	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>

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, 2015 AND 2014 (amounts in thousands)

	<u>2015</u>	<u>2014</u>
REVENUES:		
District improvement bonus revenue	\$ 193,652	\$ 10,827
Tax equivalency payment revenue	48,563	38,553
PILOMRT revenue	-	13,873
PILOT revenue	4,036	-
Interest support payment revenue	28,047	38,130
Other revenue	4,681	2,206
Investment income	898	1,159
	<u>279,877</u>	<u>104,748</u>
Total revenues		
	<u>279,877</u>	<u>104,748</u>
EXPENSES:		
Project - subway extension	107,412	175,228
Project - land acquisition and public amenities	(9,956)	91,136
Project - transfer to Hudson Yards Development Corporation	1,343	2,233
Bond interest	129,359	140,393
General and administrative	514	435
	<u>228,672</u>	<u>409,425</u>
Total expenses		
	<u>228,672</u>	<u>409,425</u>
CHANGE IN NET POSITION	51,205	(304,677)
NET POSITION (DEFICIT) - Beginning of year	<u>(2,591,204)</u>	<u>(2,286,527)</u>
NET POSITION (DEFICIT) - End of year	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>

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, 2015 (amounts in thousands)**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Unrestricted cash equivalents	\$ 4,862	\$ -	\$ -	\$ 4,862
Restricted cash equivalents	-	10,612	36,434	47,046
Restricted investments	-	227,386	232,164	459,550
Due from capital projects fund	-	255	-	255
Prepaid insurance	154	-	-	154
Transferable development rights	-	191,276	-	191,276
	<u>5,016</u>	<u>429,529</u>	<u>268,598</u>	<u>703,143</u>
Total assets	<u>\$ 5,016</u>	<u>\$ 429,529</u>	<u>\$ 268,598</u>	<u>\$ 703,143</u>
<b>LIABILITIES:</b>				
Project costs payable	\$ -	\$ -	\$ 26,006	\$ 26,006
Accounts payable	20	-	-	20
Due to debt service fund	-	-	255	255
Payable to The City of New York	-	-	2,233	2,233
Payable to Hudson Yards Development Corporation	-	-	124	124
	<u>20</u>	<u>-</u>	<u>28,618</u>	<u>28,638</u>
Total liabilities	<u>20</u>	<u>-</u>	<u>28,618</u>	<u>28,638</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Prepaid PILOT	-	2,491	-	2,491
	<u>-</u>	<u>2,491</u>	<u>-</u>	<u>2,491</u>
Total deferred inflows of resources	<u>-</u>	<u>2,491</u>	<u>-</u>	<u>2,491</u>
<b>FUND BALANCES:</b>				
Nonspendable prepaid insurance	154	-	-	154
Restricted for:				
Debt service	-	427,038	-	427,038
Capital projects	-	-	239,980	239,980
Unassigned	4,842	-	-	4,842
	<u>4,996</u>	<u>427,038</u>	<u>239,980</u>	<u>672,014</u>
Total fund balances	<u>4,996</u>	<u>427,038</u>	<u>239,980</u>	<u>672,014</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,016</u>	<u>\$ 429,529</u>	<u>\$ 268,598</u>	<u>\$ 703,143</u>

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, 2014 (amounts in thousands)**

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

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, 2015 AND 2014 (amounts in thousands)

	<u>2015</u>	<u>2014</u>
Total fund balances - governmental funds	\$ 672,014	\$ 654,067
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.	(107,093)	(110,548)
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	(47,073)	(76,876)
Net position (deficit) - governmental activities	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>

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, 2015 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	\$ 787	\$ 192,865	\$ -	\$ 193,652
Tax equivalency payment revenue	-	48,563	-	48,563
PILOT revenue	-	4,036	-	4,036
Interest support payment revenue	-	28,047	-	28,047
Other revenue	4,681	-	-	4,681
Investment income	-	(183)	1,081	898
	<u>5,468</u>	<u>273,328</u>	<u>1,081</u>	<u>279,877</u>
Total revenues				
EXPENDITURES:				
Project - subway extension	-	-	107,412	107,412
Project - land acquisition and public amenities	-	-	19,847	19,847
Project - transfers to Hudson Yards Development Corporation	-	-	1,343	1,343
Bond interest	-	132,814	-	132,814
General and administrative	514	-	-	514
	<u>514</u>	<u>132,814</u>	<u>128,602</u>	<u>261,930</u>
Total expenditures				
OTHER FINANCING SOURCES (USES):				
Transfers (from capital projects fund) to debt service fund	-	822	(822)	-
Transfer (from general fund) to debt service fund	(278)	278	-	-
	<u>(278)</u>	<u>1,100</u>	<u>(822)</u>	<u>-</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES	4,676	141,614	(128,343)	17,947
FUND BALANCES - beginning of year	320	285,424	368,323	654,067
FUND BALANCES - end of year	<u>\$ 4,996</u>	<u>\$ 427,038</u>	<u>\$ 239,980</u>	<u>\$ 672,014</u>

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, 2014 (amounts in thousands)

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

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, 2015 AND 2014 (amounts in thousands)

	<u>2015</u>	<u>2014</u>
Net change in fund balances - total governmental funds	\$ 17,947	\$ (232,609)
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.	3,455	3,455
Contingent liabilities are reported on the statements of activities on the accrual basis. However, contingent expenditures are reported in the governmental funds financial statements when the outlay of current financial resources is paid.	<u>29,803</u>	<u>(75,523)</u>
Change in net position (deficit) - governmental activities	<u>\$ 51,205</u>	<u>\$ (304,677)</u>

See notes to financial statements.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (amounts in thousands, except as noted)

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### 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 43<sup>rd</sup> Street on the north, Twelfth Avenue on the west and West 29<sup>th</sup> and 30<sup>th</sup> 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<sup>th</sup> Avenue and 41<sup>st</sup> Street to a new station at 11<sup>th</sup> Avenue and West 34<sup>th</sup> 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 30<sup>th</sup> and West 33<sup>rd</sup> 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.



# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 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.

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

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.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### *Cash Equivalents*

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

#### *Capital Assets*

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

For fixed assets used in the operations of HYIC, HYIC's policy is to capitalize the purchase 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 and will include:

- (1) Interest Support Payments ("ISP") are made by the City under the terms of the Support and Development Agreement ("Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISP on up to \$3 billion of HYIC bonds issued prior to the Conversion Date (described below), for so long as such bonds are outstanding, in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds;
- (2) Payments in lieu of real estate taxes ("PILOT") which have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), the City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements");
- (3) Tax Equivalency Payments ("TEP") are made by the City under the terms of the Agreement that obligates the City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by the City on new development (including substantial rehabilitation of existing buildings) in the Project Area;
- (4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area;

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 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;

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

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 30<sup>th</sup> of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

#### *Arbitrage Rebate*

To maintain the exemption from Federal income tax of interest on bonds issued on December 21, 2006 and October 26, 2011, HYIC will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, or within 60 days after retirement of the bonds.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 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. The amounts of unamortized bond premium at June 30, 2015 and 2014 were \$107 million and \$110 million, respectively, which were net of accumulated amortization of \$26.7 million and \$23.2 million, respectively.

#### *Use of Estimates*

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

#### *Recent Accounting Pronouncements*

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

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). GASB 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015; however, HYIC has early adopted the standard during fiscal year 2015. Pursuant to the standard, HYIC has disclosed the hierarchy of valuation inputs and valuation techniques in its notes the financial statements.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. HYIC has not completed the process of evaluating GASB 73, but does not expect it to have an impact on HYIC's financial statements as it has no employees or pension system.
- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"). GASB 74 establishes financial reporting standards to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. HYIC has not completed the process of evaluating GASB 74, but does not expect it to have an impact on HYIC's financial statements as it has no employees.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB 75”). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. HYIC has not completed the process of evaluating GASB 75, but does not expect it to have an impact on HYIC’s financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. HYIC has not completed the process of evaluating GASB 76, but does not expect it to have an impact on HYIC’s financial statements.

### 3. CASH AND CASH EQUIVALENTS

As of June 30, 2015 and 2014, HYIC did not have any cash deposits on hand. Cash equivalents were comprised of Money Market Funds and commercial paper maturing within 90 days, primarily restricted for capital projects. HYIC’s cash and cash equivalents consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cash	\$ -	\$ -
Cash Equivalents (see Note 4)	<u>51,908</u>	<u>104,847</u>
Total Cash and Cash Equivalents	<u>\$ 51,908</u>	<u>\$ 104,847</u>

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

### 4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted:		
Money Market Funds	\$ 4,862	\$ 197
Total Unrestricted	<u>4,862</u>	<u>197</u>
Restricted for Debt Service:		
Money Market Funds	10,612	25,607
Federal National Mortgage Association discount note (maturing after one year)	75,621	-
U.S. Treasury Note (maturing within one year)	76,924	-
U.S. Treasury Note (maturing after one year)	74,841	-
Total Restricted for Debt Service	<u>237,998</u>	<u>25,607</u>
Restricted for Capital Projects:		
Money Market Funds	36,434	38,278
Commercial Paper (maturing within 90 days)	-	40,765
Commercial Paper (maturing after 90 days)	19,999	320,027
Federal Farm Credit Bank Bond (maturing after one year)	5,483	-
Federal Home Loan Mortgage Corporation medium term note (maturing after one year)	-	2,400
Federal Home Loan Bank medium term note (maturing after one year)	2,424	-
Federal National Mortgage Association medium term note (maturing after one year)	999	-
U.S. Treasury Note (maturing after one year)	203,259	4,986
Total Restricted for Capital Projects	<u>268,598</u>	<u>406,456</u>
Total Investments including cash equivalents	511,458	432,260
Less amounts reported as cash equivalents (see Note 3)	(51,908)	(104,847)
Total Investments	<u>\$ 459,550</u>	<u>\$ 327,413</u>

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 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 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.

#### *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, 2015 and 2014:

- Money Market Funds are valued based on various market and industry inputs (Level 2 inputs).
- U.S. Treasury securities of \$355 million and \$5.0 million respectively, are valued using quoted market prices (Level 1 inputs).
- U.S. Agency securities of \$84.5 million and \$2.4 million respectively, are valued using a matrix pricing model (Level 2 inputs).
- Commercial paper of \$20.0 million and \$361 million respectively, are valued using a matrix pricing model (Level 2 inputs).

#### *Custodial Credit Risk*

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

#### *Credit Risk*

All investments held by HYIC at June 30, 2015 and 2014 are obligations of, or guaranteed by, the United States of America; or are invested in Federal National Mortgage Association securities, and/or Federal Home Loan Mortgage Corporation, and/or Federal Farm Credit Bank, which are rated by S&P AA+, Moody Aaa, and Fitch AAA; and Federal Home Loan Bank securities, which is rated by S&P AA+ and Moodys Aaa; money market funds which are rated by S&P AAA and Moodys Aaa; and commercial paper that is rated in the highest category by at least two rating agencies.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 4. INVESTMENTS (continued)

#### *Interest Rate Risk*

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

#### *Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of HYIC's investments in a single issuer (5% or more). HYIC's investment policy places no limits on the amount HYIC may invest in any one issuer of eligible investments as defined in the Indenture. As of June 30, 2015, HYIC's investments are in eligible government obligations and commercial paper. These are 86% and 14% of HYIC total investments, respectively.

### 5. TRANSFERABLE DEVELOPMENT RIGHTS

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

The full value of the TDRs, including, the full purchase price and HYIC's cost of funds, is reflected as an asset in the governmental funds balance sheets and in the statements of net position (deficit). In fiscal year 2015, the cost of funds borrowed and added to the TDR asset value was adjusted to be consistent with the manner in which the TDR proceeds are received.

On December 5, 2014, HYIC received proceeds of \$90.1 million from the sale of TDRs. This amount reduced the fiscal year 2015 carrying amount of the asset on the governmental funds balance sheet and in the statement of net position (deficit).



# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

### 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 30<sup>th</sup> following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.75%.

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2015 follows:

<u>Series</u>	<u>Balance June 30, 2014</u>	<u>Year Ended June 30, 2015</u>		<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
		<u>Additions</u>	<u>Deletions</u>		
Fiscal 2007 Series A	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ -
Fiscal 2012 Series A	1,000,000	-	-	1,000,000	-
Total before premium	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>
Premium	110,548			107,093	
Total Bonds Payable and Premium	<u>\$ 3,110,548</u>			<u>\$ 3,107,093</u>	<u>\$ -</u>

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (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, 2014 follows:

<u>Series</u>	<u>Balance June 30, 2013</u>	<u>Year Ended June 30, 2014</u>		<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
		<u>Additions</u>	<u>Deletions</u>		
Fiscal 2007 Series A	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000	\$ -
Fiscal 2012 Series A	1,000,000	-	-	1,000,000	-
Total before premium	<u>\$ 3,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,000,000</u>	<u>\$ -</u>
Premium	114,003			110,548	
Total Bonds Payable and Premium	<u>\$ 3,114,003</u>			<u>\$ 3,110,548</u>	<u>\$ -</u>

Debt service requirements on bonds, including principal and interest, at June 30, 2015, are as follows:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ -	\$ 153,125	\$ 153,125
2017	-	153,125	153,125
2018	-	153,125	153,125
2019	-	153,125	153,125
2020	-	153,125	153,125
2021 to 2025	-	765,625	765,625
2026 to 2030	-	765,625	765,625
2031 to 2035	-	765,625	765,625
2036 to 2040	-	765,625	765,625
2041 to 2045	-	765,625	765,625
2046 to 2047	3,000,000	153,125	3,153,125
<b>Totals</b>	<u>\$ 3,000,000</u>	<u>\$ 4,746,875</u>	<u>\$ 7,746,875</u>

#### *Claims and Litigation*

During fiscal year 2010, the City began receiving appraisals from claimants with pending claims for additional compensation for the City's acquisitions of their interests within the Project Area. Although the City is the condemnor of property interest for the Project, the Corporation is responsible for funding any payments ultimately determined to be payable on such claims. The potential future liability attributable to claims asserted in such condemnation proceedings was estimated to be \$60 million, which was HYIC's best estimate as of the end of fiscal years 2011 and 2010, based upon available information.

# HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 (continued) (amounts in thousands, except as noted)

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### 6. LONG-TERM LIABILITIES (continued)

In September 2011 (fiscal year 2012), the New York State Supreme Court (the "Court") issued a determination that the Claimants' appraisals had relied upon an erroneous zoning assumption. The Claimants appealed the Court's determination to the Appellate Division, First Department, which, in May 2013, affirmed the lower court's decision. As of the fiscal years ending June 30, 2013 and 2012, the Claimants did not submit amended appraisals. In view of the aforesaid determination by the Courts rejecting the Claimants' appraisals, the Corporation's potential liability as of June 30, 2013 and 2012, if any, with respect to these claims was not estimable and as such any accrued estimated liabilities were removed from HYIC's financials records.

In June 2014, the Claimants served amended appraisals to the City based on the appropriate zoning assumptions for the majority of the properties and the City has been informed that balance of amended appraisals for the remaining properties will be submitted in fiscal year 2015. In view of these events and based on a range of typical outcomes of prior City condemnation cases, it may be reasonable to assume that certain of the Project condemnation claims may result in awards greater or less than 150 percent of the City's appraised values. As such, the contingent liability is estimated at the lesser of the new appraised value or 50 percent of the City's appraised value, plus 6 percent simple interest from the date of the condemnation. As of June 30, 2014, the estimated contingent liability is approximately \$73.9 million. In addition, as of June 30, 2014, other claimants, who were not a party to the above proceedings, filed suit related to valuations as part of condemnation proceedings. As such, an accrual of approximately \$3.0 million and \$1.4 million has been recorded as of June 30, 2014 and 2013, respectively, until such time that a determination is made with regards to the claims.

In fiscal year 2015, the balance of amended appraisals for the properties was submitted. As such, 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. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.

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