



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, 2016 and 2015

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, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 22, 2016

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, 2016 AND 2015 (unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of the Hudson Yards Infrastructure Corporation ("HYIC") as of June 30, 2016 and 2015 and for the years then ended. It should be read in conjunction with HYIC's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the financial statements.

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

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

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

ORGANIZATIONAL OVERVIEW

HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the "Project"). HYIC does not engage in the development directly, but finances the development which is spearheaded by the Hudson Yards Development Corporation ("HYDC") and carried out by existing public entities. The Project, is in an area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Twelfth Avenue on the west and West 29th and 30th Streets on the south (the "Project Area"). The Project consists of: (1) design and construction of an extension of the No. 7 Subway from its terminus at Seventh Avenue and 41st Street to a new station at Eleventh Avenue and West 34th Street (the "Subway Extension"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights ("TDRs") over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY"), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project. The subway extension began service in September 2015. Construction of Phase I of Hudson Park and Boulevard was completed and opened to the public also in September 2015.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (unaudited) (continued)

ORGANIZATIONAL OVERVIEW (continued)

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues to support its operations and service its debt. HYIC revenues include: (1) Interest Support Payments ("ISP") made by The City of New York (the "City") under the terms of the Support and Development Agreement ("Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISPs on up to \$3 billion of HYIC bonds in an amount equal to the difference between the amount of funds available to HYIC to pay interest on those bonds and the amount of interest due on such bonds; (2) payments in lieu of real estate taxes ("PILOT") that have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), the City, and the MTA, and that are to be made in accordance with agreements between developers and IDA and others ("PILOT Agreements"); (3) Tax Equivalency Payments ("TEP") made by the City under the terms of the Agreement, which obligates the City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by the City on new development (including substantial rehabilitation of existing buildings) in the Project Area; (4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area; and (5) payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements. PILOT Agreements 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 30th of that year. Bonds issued by HYIC after the Conversion Date are not entitled to ISPs under the Agreement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (unaudited) (continued)

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

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

The following summarizes the activities of HYIC for the years ended June 30, 2016, 2015 and 2014:

	2016	2015	2014	Change 2016 vs 2015	Change 2015 vs 2014
Revenues:					
Program revenue	\$ 131,304	\$ 246,251	\$ 63,253	\$ (114,947)	\$ 182,998
Other revenue	2,034	33,626	41,495	(31,592)	(7,869)
Total revenues	133,338	279,877	104,748	(146,539)	175,129
Expenses:					
Project	56,032	98,799	268,597	(42,767)	(169,798)
Bond interest	142,425	129,359	140,393	13,066	(11,034)
Other	503	514	435	(11)	79
Total expenses	198,960	228,672	409,425	(29,712)	(180,753)
Change in net position	(65,622)	51,205	(304,677)	(116,827)	355,882
Net position (deficit) - beginning of year	(2,539,999)	(2,591,204)	(2,286,527)	51,205	(304,677)
Net position (deficit) - end of year	<u>\$ (2,605,621)</u>	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>	<u>\$ (65,622)</u>	<u>\$ 51,205</u>

Program revenue decreased in fiscal year 2016 by \$114.9 million due to lower DIB collections than in the prior fiscal year. Other revenue decreased in fiscal year 2016 by \$31.6 million mainly because ISP was not needed and therefore not collected in fiscal year 2016. 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.

HUDSON YARDS INFRASTRUCTURE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (unaudited) (continued)

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

Project expenses incurred during fiscal year 2016 were \$56.0 million compared to fiscal year 2015 when HYIC incurred approximately \$98.8 million. The \$42.8 million decrease was primarily due to diminishing subway extension expenses as the subway construction nears completion. Project expenses incurred during fiscal year 2015 were 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 comprised 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 (see Note 6).

Changes in bond interest expense are related to changes in interest accrued on TDRs held by HYIC. Bond interest expense is offset by the interest cost of borrowed funds used to purchase the TDRs, which become part of the TDRs' asset value (see Note 5).

The following summarizes HYIC's assets, liabilities and net position (deficit) as of June 30, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Assets:					
Non-capital	<u>\$ 610,325</u>	<u>\$ 702,888</u>	<u>\$ 693,927</u>	<u>\$ (92,563)</u>	<u>\$ 8,961</u>
Total assets	<u>610,325</u>	<u>702,888</u>	<u>693,927</u>	<u>(92,563)</u>	<u>8,961</u>
Liabilities:					
Current liabilities	<u>65,575</u>	<u>86,230</u>	<u>95,757</u>	<u>(20,655)</u>	<u>(9,527)</u>
Long-term liabilities	<u>3,144,855</u>	<u>3,154,166</u>	<u>3,187,424</u>	<u>(9,311)</u>	<u>(33,258)</u>
Total liabilities	<u>3,210,430</u>	<u>3,240,396</u>	<u>3,283,181</u>	<u>(29,966)</u>	<u>(42,785)</u>
Deferred inflows of resources:					
Prepaid PILOT	<u>5,516</u>	<u>2,491</u>	<u>1,950</u>	<u>3,025</u>	<u>541</u>
Total deferred inflows of resources	<u>5,516</u>	<u>2,491</u>	<u>1,950</u>	<u>3,025</u>	<u>541</u>
Net position (deficit):					
Restricted	<u>136,674</u>	<u>192,907</u>	<u>291,447</u>	<u>(56,233)</u>	<u>(98,540)</u>
Unrestricted	<u>(2,742,295)</u>	<u>(2,732,906)</u>	<u>(2,882,651)</u>	<u>(9,389)</u>	<u>149,745</u>
Total net position (deficit)	<u>\$ (2,605,621)</u>	<u>\$ (2,539,999)</u>	<u>\$ (2,591,204)</u>	<u>\$ (65,622)</u>	<u>\$ 51,205</u>

HUDSON YARDS INFRASTRUCTURE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (unaudited) (continued)

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

Total assets at the end of fiscal year 2016 were lower than fiscal year 2015 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. Total assets at June 30, 2015 increased by \$9.0 million because earned revenue in fiscal year 2015 was more than HYIC incurred expenses.

Current liabilities at June 30, 2016, 2015 and 2014 were lower each year as project expenses decreased.

Long-term liabilities decreased in fiscal year 2016 by \$9.3 million because of \$7.2 million of condemnation settlement payments and \$3.5 million of bond premium amortization, which was offset by \$1.4 million of accrued interest on unsettled condemnation claims.

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

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 net position balances at June 30, 2016, 2015 and 2014 were primarily due to the issuance of bonds that will be repaid from future revenues.

HUDSON YARDS INFRASTRUCTURE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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, 2016, 2015, and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Revenues:					
Program revenue	\$ 725	\$ 787	\$ 788	\$ (62)	\$ (1)
Other revenue	14	4,681	10	(4,667)	4,671
Total revenues	<u>739</u>	<u>5,468</u>	<u>798</u>	<u>(4,729)</u>	<u>4,670</u>
Expenditures	<u>503</u>	<u>514</u>	<u>435</u>	<u>(11)</u>	<u>79</u>
Other financing sources (uses)	<u>11,368</u>	<u>(278)</u>	<u>(363)</u>	<u>11,646</u>	<u>85</u>
Net change in fund balances	11,604	4,676	-	6,928	4,676
Fund balance - beginning of year	<u>4,996</u>	<u>320</u>	<u>320</u>	<u>4,676</u>	<u>-</u>
Fund balance - end of year	<u>\$ 16,600</u>	<u>\$ 4,996</u>	<u>\$ 320</u>	<u>\$ 11,604</u>	<u>\$ 4,676</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 agreements.

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

The increase in other financing sources (uses) in fiscal year 2016 was due to the transfer of non-recurring application fees from the DSF to the GF.

HUDSON YARDS INFRASTRUCTURE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Revenues:					
Program revenue	\$ 130,579	\$ 245,464	\$ 62,465	\$ (114,885)	\$ 182,999
Other revenue	915	27,864	40,404	(26,949)	(12,540)
Total revenues	<u>131,494</u>	<u>273,328</u>	<u>102,869</u>	<u>(141,834)</u>	<u>170,459</u>
Expenditures	<u>145,879</u>	<u>132,814</u>	<u>143,848</u>	<u>13,065</u>	<u>(11,034)</u>
Other financing sources (uses)	<u>(10,062)</u>	<u>1,100</u>	<u>1,412</u>	<u>(11,162)</u>	<u>(312)</u>
Net change in fund balances	(24,447)	141,614	(39,567)	(166,061)	181,181
Fund balance - beginning of year	<u>427,038</u>	<u>285,424</u>	<u>324,991</u>	<u>141,614</u>	<u>(39,567)</u>
Fund balance - end of year	<u>\$ 402,591</u>	<u>\$ 427,038</u>	<u>\$ 285,424</u>	<u>\$ (24,447)</u>	<u>\$ 141,614</u>

Program revenue decreased in fiscal year 2016 by \$114.9 million due to lower DIB collections than in the prior fiscal year. Other revenue decreased in fiscal year 2016 by \$26.9 million mainly because ISP was not collected in fiscal year 2016.

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. The decrease in other revenue in fiscal year 2015 was due to \$10.1 million less in ISP, as the collection of DIB, TEP, and PILOT provided greater offset to ISP than in the prior year.

Changes in expenditures are related to changes in interest accrued on TDRs held by HYIC. Expenditures are offset by the interest cost of borrowed funds used to purchase the TDRs, which become part of the TDRs' asset value (see Note 5).

Other financing sources (uses) decreased in fiscal year 2016 primarily because of the transfer of other non-recurring application fees from the DSF to the GF, as previously discussed.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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 CPF balances for the years ended June 30, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Revenues	<u>\$ 1,105</u>	<u>\$ 1,081</u>	<u>\$ 1,081</u>	<u>\$ 24</u>	<u>\$ -</u>
Expenditures:					
Project costs	<u>61,889</u>	<u>128,602</u>	<u>193,074</u>	<u>(66,713)</u>	<u>(64,472)</u>
Other financing (uses)	<u>(1,306)</u>	<u>(822)</u>	<u>(1,049)</u>	<u>(484)</u>	<u>227</u>
Net change in fund balances	<u>(62,090)</u>	<u>(128,343)</u>	<u>(193,042)</u>	<u>66,253</u>	<u>64,699</u>
Fund balance - beginning of year	<u>239,980</u>	<u>368,323</u>	<u>561,365</u>	<u>(128,343)</u>	<u>(193,042)</u>
Fund balance - end of year	<u>\$ 177,890</u>	<u>\$ 239,980</u>	<u>\$ 368,323</u>	<u>\$ (62,090)</u>	<u>\$ (128,343)</u>

The CPF revenues are comprised of interest earnings.

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

Other financing (uses) during fiscal years 2016, 2015 and 2014 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, 2016 AND 2015 (unaudited) (continued)

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

The following summarizes the GF assets, liabilities, and fund balances as of June 30, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Assets:					
Cash equivalents and investments	\$ 16,469	\$ 4,862	\$ 197	\$ 11,607	\$ 4,665
Prepaid insurance	<u>152</u>	<u>154</u>	<u>154</u>	<u>(2)</u>	<u>-</u>
Total assets	<u>\$ 16,621</u>	<u>\$ 5,016</u>	<u>\$ 351</u>	<u>\$ 11,605</u>	<u>\$ 4,665</u>
Liabilities:	<u>\$ 21</u>	<u>\$ 20</u>	<u>\$ 31</u>	<u>\$ 1</u>	<u>\$ (11)</u>
Fund Balances:					
Nonspendable prepaid insurance	152	154	154	(2)	-
Unassigned	<u>16,448</u>	<u>4,842</u>	<u>166</u>	<u>11,606</u>	<u>4,676</u>
Total fund balances	<u>16,600</u>	<u>4,996</u>	<u>320</u>	<u>11,604</u>	<u>4,676</u>
Total liabilities and fund balances	<u>\$ 16,621</u>	<u>\$ 5,016</u>	<u>\$ 351</u>	<u>\$ 11,605</u>	<u>\$ 4,665</u>

The GF assets in fiscal years 2016 and 2015 increased by \$11.6 million and \$4.7 million, respectively due to the collection of application fees associated with PILOT agreements.

HUDSON YARDS INFRASTRUCTURE CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Assets:					
Restricted cash equivalents and investments	\$ 308,646	\$ 237,998	\$ 25,607	\$ 70,648	\$ 212,391
Transferable development rights	99,367	191,276	261,513	(91,909)	(70,237)
Due from capital projects fund	94	255	254	(161)	1
Total assets	<u>\$ 408,107</u>	<u>\$ 429,529</u>	<u>\$ 287,374</u>	<u>\$ (21,422)</u>	<u>\$ 142,155</u>
Deferred inflows of resources:					
Prepaid PILOT	<u>\$ 5,516</u>	<u>\$ 2,491</u>	<u>\$ 1,950</u>	<u>\$ 3,025</u>	<u>\$ 541</u>
Fund balances:					
Restricted	<u>402,591</u>	<u>427,038</u>	<u>285,424</u>	<u>(24,447)</u>	<u>141,614</u>
Total fund balances	<u>402,591</u>	<u>427,038</u>	<u>285,424</u>	<u>(24,447)</u>	<u>141,614</u>
Total deferred inflows of resources and fund balances	<u>\$ 408,107</u>	<u>\$ 429,529</u>	<u>\$ 287,374</u>	<u>\$ (21,422)</u>	<u>\$ 142,155</u>

The change in total DSF assets is based on the difference between the collections of revenue and payment of debt service during the fiscal year.

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, 2016 AND 2015 (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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Change 2016 vs 2015</u>	<u>Change 2015 vs 2014</u>
Assets:					
Restricted cash equivalents and investments	<u>\$ 185,691</u>	<u>\$ 268,598</u>	<u>\$ 406,456</u>	<u>\$ (82,907)</u>	<u>\$ (137,858)</u>
Total assets	<u>\$ 185,691</u>	<u>\$ 268,598</u>	<u>\$ 406,456</u>	<u>\$ (82,907)</u>	<u>\$ (137,858)</u>
Liabilities:					
Project	<u>\$ 7,707</u>	<u>\$ 28,363</u>	<u>\$ 37,879</u>	<u>\$ (20,656)</u>	<u>\$ (9,516)</u>
Due to debt service fund	<u>94</u>	<u>255</u>	<u>254</u>	<u>(161)</u>	<u>1</u>
Total liabilities	<u>7,801</u>	<u>28,618</u>	<u>38,133</u>	<u>(20,817)</u>	<u>(9,515)</u>
Fund balances:					
Restricted	<u>177,890</u>	<u>239,980</u>	<u>368,323</u>	<u>(62,090)</u>	<u>(128,343)</u>
Total fund balances	<u>177,890</u>	<u>239,980</u>	<u>368,323</u>	<u>(62,090)</u>	<u>(128,343)</u>
Total liabilities and fund balances	<u>\$ 185,691</u>	<u>\$ 268,598</u>	<u>\$ 406,456</u>	<u>\$ (82,907)</u>	<u>\$ (137,858)</u>

CPF assets on hand at June 30, 2016, 2015, and 2014 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 2016 and 2015.

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.

HUDSON YARDS INFRASTRUCTURE CORPORATION

(A Component Unit of The City of New York)

STATEMENTS OF NET POSITION (DEFICIT)

AS OF JUNE 30, 2016 AND 2015 (amounts in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS:		
Unrestricted cash equivalents	\$ 16,468	\$ 4,862
Restricted cash equivalents	158,148	47,046
Restricted investments	336,175	459,550
Interest receivable	15	-
Prepaid insurance	152	154
Transferable development rights	99,367	191,276
	<u>610,325</u>	<u>702,888</u>
Total assets		
LIABILITIES:		
Project costs payable	7,316	26,006
Accrued expenses	21	20
Payable to The City of New York	346	2,233
Payable to Hudson Yards Development Corporation	45	124
Accrued bond interest payable	57,847	57,847
Contingent liabilities	41,216	47,073
Long-term debt:		
Portion due after one year	3,103,639	3,107,093
	<u>3,210,430</u>	<u>3,240,396</u>
Total liabilities		
DEFERRED INFLOWS OF RESOURCES:		
Prepaid PILOT	5,516	2,491
	<u>5,516</u>	<u>2,491</u>
Total deferred inflows of resources		
NET POSITION (DEFICIT):		
Restricted for capital projects	136,674	192,907
Unrestricted (deficit)	(2,742,295)	(2,732,906)
	<u>(2,605,621)</u>	<u>(2,539,999)</u>
Total net position (deficit)		

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, 2016 AND 2015 (amounts in thousands)

	<u>2016</u>	<u>2015</u>
REVENUES:		
District improvement bonus revenue	\$ 45,183	\$ 193,652
Tax equivalency payment revenue	58,656	48,563
PILOMRT revenue	22,496	-
PILOT revenue	4,969	4,036
Interest support payment revenue	-	28,047
Other revenue	29	4,681
Investment income	2,005	898
	<u>133,338</u>	<u>279,877</u>
Total revenues	<u>133,338</u>	<u>279,877</u>
EXPENSES:		
Project - subway extension	38,600	107,412
Project - land acquisition and public amenities	16,335	(9,956)
Project - transfer to Hudson Yards Development Corporation	1,097	1,343
Bond interest	142,425	129,359
General and administrative	503	514
	<u>198,960</u>	<u>228,672</u>
Total expenses	<u>198,960</u>	<u>228,672</u>
CHANGE IN NET POSITION	(65,622)	51,205
NET POSITION (DEFICIT) - Beginning of year	<u>(2,539,999)</u>	<u>(2,591,204)</u>
NET POSITION (DEFICIT) - End of year	<u>\$ (2,605,621)</u>	<u>\$ (2,539,999)</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, 2016 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	\$ 16,468	\$ -	\$ -	\$ 16,468
Restricted cash equivalents	-	133,859	24,289	158,148
Restricted investments	-	174,775	161,400	336,175
Interest receivable	1	12	2	15
Due from capital projects fund	-	94	-	94
Prepaid insurance	152	-	-	152
Transferable development rights	-	99,367	-	99,367
	<u>16,621</u>	<u>408,107</u>	<u>185,691</u>	<u>610,419</u>
Total assets	<u>\$ 16,621</u>	<u>\$ 408,107</u>	<u>\$ 185,691</u>	<u>\$ 610,419</u>
LIABILITIES:				
Project costs payable	\$ -	\$ -	\$ 7,316	\$ 7,316
Accounts payable	21	-	-	21
Due to debt service fund	-	-	94	94
Payable to The City of New York	-	-	346	346
Payable to Hudson Yards Development Corporation	-	-	45	45
	<u>21</u>	<u>-</u>	<u>7,801</u>	<u>7,822</u>
Total liabilities	<u>21</u>	<u>-</u>	<u>7,801</u>	<u>7,822</u>
DEFERRED INFLOWS OF RESOURCES:				
Prepaid PILOT	-	5,516	-	5,516
	<u>-</u>	<u>5,516</u>	<u>-</u>	<u>5,516</u>
Total deferred inflows of resources	<u>-</u>	<u>5,516</u>	<u>-</u>	<u>5,516</u>
FUND BALANCES:				
Nonspendable prepaid insurance	152	-	-	152
Restricted for:				
Debt service	-	402,591	-	402,591
Capital projects	-	-	177,890	177,890
Unassigned	16,448	-	-	16,448
	<u>16,600</u>	<u>402,591</u>	<u>177,890</u>	<u>597,081</u>
Total fund balances	<u>16,600</u>	<u>402,591</u>	<u>177,890</u>	<u>597,081</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 16,621</u>	<u>\$ 408,107</u>	<u>\$ 185,691</u>	<u>\$ 610,419</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>
ASSETS:				
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> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,016</u>	<u>\$ 429,529</u>	<u>\$ 268,598</u>	<u>\$ 703,143</u>
LIABILITIES:				
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> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>20</u>	<u>-</u>	<u>28,618</u>	<u>28,638</u>
DEFERRED INFLOWS OF RESOURCES:				
Prepaid PILOT	-	2,491	-	2,491
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total deferred inflows of resources	<u>-</u>	<u>2,491</u>	<u>-</u>	<u>2,491</u>
FUND BALANCES:				
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> </u>	<u> </u>	<u> </u>	<u> </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)

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET POSITION (DEFICIT)

AS OF JUNE 30, 2016 AND 2015 (amounts in thousands)

	<u>2016</u>	<u>2015</u>
Total fund balances - governmental funds	\$ 597,081	\$ 672,014
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.	(103,639)	(107,093)
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	(41,216)	(47,073)
Net position (deficit) - governmental activities	<u>\$ (2,605,621)</u>	<u>\$ (2,539,999)</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, 2016 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	\$ -	\$ 45,183	\$ -	\$ 45,183
Tax equivalency payment revenue	725	57,931	-	58,656
PILOMRT revenue	-	22,496	-	22,496
PILOT revenue	-	4,969	-	4,969
Other revenue	10	19	-	29
Investment income	4	896	1,105	2,005
	<u>739</u>	<u>131,494</u>	<u>1,105</u>	<u>133,338</u>
Total revenues				
EXPENDITURES:				
Project - subway extension	-	-	38,600	38,600
Project - land acquisition and public amenities	-	-	22,192	22,192
Project - transfers to Hudson Yards Development Corporation	-	-	1,097	1,097
Bond interest	-	145,879	-	145,879
General and administrative	503	-	-	503
	<u>503</u>	<u>145,879</u>	<u>61,889</u>	<u>208,271</u>
Total expenditures				
OTHER FINANCING SOURCES (USES):				
Transfers (from capital projects fund) to debt service fund	-	1,306	(1,306)	-
Transfer (from general fund) to debt service fund	(253)	253	-	-
Transfer (from debt service fund) to general fund	11,621	(11,621)	-	-
	<u>11,368</u>	<u>(10,062)</u>	<u>(1,306)</u>	<u>-</u>
Total other financing sources (uses)				
NET CHANGE IN FUND BALANCES	11,604	(24,447)	(62,090)	(74,933)
FUND BALANCES - beginning of year	<u>4,996</u>	<u>427,038</u>	<u>239,980</u>	<u>672,014</u>
FUND BALANCES - end of year	<u>\$ 16,600</u>	<u>\$ 402,591</u>	<u>\$ 177,890</u>	<u>\$ 597,081</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	<u>320</u>	<u>285,424</u>	<u>368,323</u>	<u>654,067</u>
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)

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, 2016 AND 2015 (amounts in thousands)

	<u>2016</u>	<u>2015</u>
Net change in fund balances - total governmental funds	\$ (74,933)	\$ 17,947
 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.	3,454	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 incurred or paid.	<u>5,857</u>	<u>29,803</u>
Change in net position (deficit) - governmental activities	<u>\$ (65,622)</u>	<u>\$ 51,205</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, 2016 AND 2015 (amounts in thousands, except as noted)

1. ORGANIZATION

Hudson Yards Infrastructure Corporation (“HYIC”) is a local development corporation established by The City of New York (the “City”) under Article 14 of the Not-for-Profit Corporation Law of the State of New York. HYIC’s purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the “Project”). 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 terminus at Seventh Avenue and 41st Street to a new station at Eleventh Avenue and West 34th Street (the “Subway Extension”), (2) acquisition from the Metropolitan Transportation Authority (“MTA”) of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets (“Eastern Rail Yards” or “ERY”), (3) construction of the first phase of a system of parks, public open spaces, and streets in the Project Area (“Public Amenities”) and (4) property acquisition for the Project.

HYIC fulfills its purpose through the issuance of bonds to finance the Project, including the operations of HYDC, and the collection of revenues, including payments in lieu of taxes and district improvement bonuses from private developers and appropriations from the City, to support its operations and pay principal and interest on its outstanding bonds. HYIC is governed by the Board of Directors elected by its five members, all of whom are officials of the City. HYIC’s Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor prior to any such actions. HYIC does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which HYIC pays a management fee and overhead based on its allocated share of personnel and overhead costs.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

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

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, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

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, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

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 is not the owner of the Project assets that are constructed or acquired with the proceeds of its bonds. Assets related to the parks and boulevard are property of the City. Assets related to the subway extension are owned by the City and leased to the New York City Transit Authority pursuant to a long-term lease, and are treated as assets of the New York City Transit Authority on its financial statements. Therefore, HYIC reports no infrastructure assets or construction work in progress.

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

Revenues

HYIC revenues include 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, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

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, 2016 and 2015 were \$104 million and \$107 million, respectively, which were net of accumulated amortization of \$30.1 million and \$26.7 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 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. The adoption of GASB 73 did not have an impact on HYIC's financial statements.
- 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.
- 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 employees. 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.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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. The adoption of GASB 76 did not have an impact on HYIC’s financial statements.
- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (“GASB 77”). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. The requirements of GASB 77 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 77 did not have an impact on HYIC’s financial statements as it does not enter into any such agreements.
- In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (“GASB 78”). GASB 78 amends the scope and applicability of Statement 68 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plan). The requirements of GASB 78 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 78 did not have an impact on HYIC’s financial statements as it has no employees.
- In December 2015, GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants* (“GASB 79”). GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The requirements of GASB 79 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 79 did not have an impact on HYIC’s financial statements as it has no such investments.
- In January 2016, GASB issued Statement No 80, *Blending Requirements for Certain Component Units* (“GASB 80”). GASB 80 provides clarity on how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The requirements of GASB 80 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 80 did not have an impact on HYIC’s financial statements.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In March 2016, GASB issued Statement No 81, *Irrevocable Split Interest Agreements* (“GASB 81”). GASB 81 addresses the situations under which an irrevocable split-interest agreement constitutes an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for fiscal years beginning after December 15, 2016. The adoption of GASB 81 did not have an impact on HYIC’s financial statements as it does not enter in such arrangements.
- In March 2016, GASB issued Statement No 82, *Pension Issues* (“GASB 82”). GASB 82 addresses practice issues raised during the implementation of the GASB’s pension accounting and financial reporting standards for state and local governments. The requirements of GASB 82 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 82 did not have an impact on HYIC’s financial statements as it has no employees.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2016 and 2015, 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash	\$ -	\$ -
Cash Equivalents (see Note 4)	<u>174,616</u>	<u>51,908</u>
Total Cash and Cash Equivalents	<u>\$ 174,616</u>	<u>\$ 51,908</u>

HUDSON YARDS INFRASTRUCTURE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

4. INVESTMENTS

HYIC's investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Money Market Funds	\$ 16,468	\$ 4,862
Total Unrestricted	<u>16,468</u>	<u>4,862</u>
Restricted for Debt Service:		
Money Market Funds	133,859	10,612
Federal National Mortgage Association discount note (maturing after one year)	-	75,621
U.S. Treasury Note (maturing within one year)	174,775	76,924
U.S. Treasury Note (maturing after one year)	-	74,841
Total Restricted for Debt Service	<u>308,634</u>	<u>237,998</u>
Restricted for Capital Projects:		
Money Market Funds	24,289	36,434
Commercial Paper (maturing after 90 days)	-	19,999
Federal Farm Credit Bank Bond (maturing after one year)	10,000	5,483
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 within one year)	144,179	-
U.S. Treasury Note (maturing after one year)	7,221	203,259
Total Restricted for Capital Projects	<u>185,689</u>	<u>268,598</u>
Total Investments including cash equivalents	510,791	511,458
Less amounts reported as cash equivalents (see Note 3)	(174,616)	(51,908)
Total Investments	<u>\$ 336,175</u>	<u>\$ 459,550</u>

HUDSON YARDS INFRASTRUCTURE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

4. INVESTMENTS (continued)

HYIC's management invests funds which are not immediately required for operations, debt service or capital project expenses. Each account of HYIC is held pursuant to the 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, 2016 and 2015:

- Money Market Funds are valued based on various market and industry inputs (Level 2 inputs).
- U.S. Treasury securities of \$326 million and \$355 million respectively, are valued using quoted market prices (Level 1 inputs).
- U.S. Agency securities of \$10 million and \$84.5 million respectively, are valued using a matrix pricing model (Level 2 inputs).
- Commercial paper of \$0 million and \$20.0 million respectively, are valued using a matrix pricing model (Level 2 inputs).

Custodial Credit Risk

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

Credit Risk

All investments held by HYIC at June 30, 2016 and 2015 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.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

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, 2016, 98% of HYIC's investments are in eligible government obligations or in money market funds invested in eligible government obligations.

5. TRANSFERABLE DEVELOPMENT RIGHTS

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

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

During fiscal years 2016 and 2015, HYIC received proceeds of \$99.2 million and \$90.1 million, respectively, from the sale of TDRs. These amounts reduced the fiscal year 2016 and 2015 carrying amounts of the assets on the governmental funds balance sheets and in the statements of net position (deficit).

HUDSON YARDS INFRASTRUCTURE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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 for the subsequent fiscal year (except that, if the City has made ISPs during such fiscal year, then HYIC must first reimburse the City for such ISPs). The Indenture specifies that a schedule of sinking fund installments must be established for the bonds no later than the June 30th following the Conversion Date. The bonds bear interest at fixed rates ranging from 4.5% to 5.75%.

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2016 follows:

<u>Series</u>	<u>Balance June 30, 2015</u>	<u>Year Ended June 30, 2016</u>		<u>Balance June 30, 2016</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	107,093	-	(3,454)	103,639	-
Total Bonds Payable and Premium	<u>\$ 3,107,093</u>	<u>\$ -</u>	<u>\$ (3,454)</u>	<u>\$ 3,103,639</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (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, 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	-	(3,455)	107,093	-
Total Bonds Payable and Premium	<u>\$ 3,110,548</u>	<u>\$ -</u>	<u>\$ (3,455)</u>	<u>\$ 3,107,093</u>	<u>\$ -</u>

Debt service requirements on bonds, including principal and interest, at June 30, 2016, are as follows:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 153,125	\$ 153,125
2018	-	153,125	153,125
2019	-	153,125	153,125
2020	-	153,125	153,125
2021	-	153,125	153,125
2022 to 2026	-	765,625	765,625
2027 to 2031	-	765,625	765,625
2032 to 2036	-	765,625	765,625
2037 to 2041	-	765,625	765,625
2042 to 2046	-	765,625	765,625
2047	<u>3,000,000</u>	<u>153,125</u>	<u>3,153,125</u>
Totals	<u>\$ 3,000,000</u>	<u>\$ 4,746,875</u>	<u>\$ 7,746,875</u>

HUDSON YARDS INFRASTRUCTURE CORPORATION

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (continued) (amounts in thousands, except as noted)

6. LONG-TERM LIABILITIES (continued)

Claims and Litigation

During fiscal year 2010, the City began receiving appraisals from claimants with pending claims for additional compensation for the City's acquisitions of their interests within the Project Area. Although the City is the condemnor of property interest for the Project, the Corporation is responsible for funding any payments ultimately determined to be payable on such claims.

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 financial statements.

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

In fiscal year 2015, the balance of amended appraisals for the properties was submitted. 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.

As of June 30, 2016, the contingent liability was adjusted for settled cases and accrued interest, which resulted in an estimated contingency liability of \$41.2 million. The estimate may be revised as further information is obtained and as pending cases are litigated or settled.
