Hudson Yards Infrastructure Corporation

Hudson Yards Infrastructure Corporation

(A Component Unit of The City of New York)

Financial Statements
(Together with Independent Auditors' Report)

June 30, 2020 and 2019

MARKS PANETH

ACCOUNTANTS & ADVISORS

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

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

JUNE 30, 2020 AND 2019

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MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Hudson Yards Infrastructure Corporation

We have audited the accompanying financial statements of the governmental activities of Hudson Yards Infrastructure Corporation ("HYIC"), a component unit of The City of New York, as of and for the years ended June 30, 2020 and 2019, which collectively comprise HYIC's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Hudson Yards Infrastructure Corporation as of June 30, 2020 and 2019, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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 29, 2020

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, 2020 and 2019, 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.

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

ORGANIZATIONAL OVERVIEW

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

ORGANIZATIONAL OVERVIEW (continued)

HYIC fulfills its purpose through borrowing to finance the Project and the collection of revenues to support its operations and service its debt. HYIC revenues include: (1) Interest Support Payments ("ISP") made by The City of New York (the "City") under the terms of the Amended and Restated Support and Development Agreement and the Additional Borrowing Hudson Yards Support Agreement, (together the "Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISPs on up to $3.35 billion of HYIC debt in an amount equal to the difference between the amount of funds available to HYIC to pay interest on such debt and the amount of interest due on such debt; (2) payments in lieu of real estate taxes ("PILOT") that have been assigned to HYIC under agreements with the New York City Industrial Development Agency ("IDA"), the City, and the MTA, and that are to be made in accordance with agreements between developers and the IDA and others ("PILOT Agreements"); (3) Tax Equivalency Payments ("TEP") made by the City under the terms of the Agreement, which obligates the City to pay to HYIC, subject to annual appropriation, the amount of real property taxes collected by the City on new development (including substantial rehabilitation of existing buildings) in the Project Area; (4) District Improvement Bonuses ("DIB") paid by private developers in exchange for the right to create additional density in the Project Area; and (5) payments in lieu of the mortgage recording tax ("PILOMRT") required to be made by private developers entering into PILOT Agreements. PILOT Agreements that are entered into by developers are done so because PILOT payments during the first 19 years are substantially lower than the real estate taxes that would otherwise be due. Application of revenues, transfers of funds and payments are done in accordance with the terms of the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "First Indenture"), the Second Trust Indenture dated May 1, 2017, (the "Second Indenture") and Third Supplemental Trust Indenture dated February 1, 2019 (the "Third Indenture"), collectively, the ("Indentures").

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. 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 Project. The FY12 Bonds are term bonds with semiannual interest payments beginning on February 15, 2012 and maturing on February 15, 2047.

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

On February 1, 2019, HYIC entered into a Term Loan Agreement ("Loan") which presently provides for up to $200 million to finance additional infrastructure projects in the Project Area. As of June 30, 2020 and 2019, the Loan had an outstanding balance of $545 thousand and $0, respectively.

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

The following summarizes the activities of HYIC for the years ended June 30, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Revenues:					
Program revenue	$ 428,638	$ 253,525	$ 208,923	$ 175,113	$ 44,602
Other revenue	11,382	11,410	21,840	(28)	(10,430)
Total revenues	440,020	264,935	230,763	175,085	34,172
Expenses:					
Project	(2,136)	34,371	26,026	(36,507)	8,345
Interest expenses	115,392	115,390	115,217	2	173
Payments to The City of New York	350,000	100,000	-	250,000	100,000
Loss on defeasance	-	-	2,213	-	(2,213)
Other	1,752	981	704	771	277
Total expenses	465,008	250,742	144,160	214,266	106,582
Change in net position	(24,988)	14,193	86,603	(39,181)	(72,410)
Net position (deficit) - beginning of year	(2,675,668)	(2,689,861)	(2,776,464)	14,193	86,603
Net position (deficit) - end of year	$ (2,700,656)	$ (2,675,668)	$ (2,689,861)	$ (24,988)	$ 14,193

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

Project expenses fluctuate each year based on the timing and progress of construction. In addition, settlements with condemnation claimants resulted in an $18 million reduction of accrued condemnation expenses, which gave rise to negative overall project expenses in fiscal year 2020 (see Note 5).

Payments to the City fluctuate each year depending on surplus funds available to transfer to the City in accordance with the Indentures.

Due to a cash defeasance in fiscal year 2018, an accounting loss on defeasance of $2.2 million, which represents the difference between the carrying value of the defeased bonds and the amount paid (using current resources) to defease the bonds, was reported as a period expense (see Note 5).

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, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Assets:					
Non-capital	$ 418,543	$ 475,987	$ 448,609	$ (57,444)	$ 27,378
Total assets	418,543	475,987	448,609	(57,444)	27,378
Liabilities:					
Current liabilities	66,656	52,974	57,744	13,682	(4,770)
Long-term liabilities	2,974,000	3,017,506	3,043,916	(43,506)	(26,410)
Total liabilities	3,040,656	3,070,480	3,101,660	(29,824)	(31,180)
Deferred inflows of resources:					
Prepaid PILOT	58,397	60,254	15,114	(1,857)	45,140
Unamortized deferred bond refunding costs	20,146	20,921	21,696	(775)	(775)
Total deferred inflows of resources	78,543	81,175	36,810	(2,632)	44,365
Net position (deficit):					
Restricted	29,379	26,211	59,787	3,168	(33,576)
Unrestricted	(2,730,035)	(2,701,879)	(2,749,648)	(28,156)	47,769
Total net position (deficit)	$ (2,700,656)	$ (2,675,668)	$ (2,689,861)	$ (24,988)	$ 14,193

Assets fluctuate each year depending on revenue collections retained by HYIC. The capital assets financed by HYIC are not owned by HYIC; therefore, they do not appear on the financial statements of HYIC (see Note 2).

The decrease in long-term liabilities in fiscal years 2020 and 2019 was primarily due to the amortization of bond premium and a reduction of contingent liabilities.

PILOT payments received for assessments owed in the following fiscal years are treated as prepaid amounts and reported as deferred inflows of resources and the increased amounts reported in fiscal year 2020 and fiscal year 2019 when compared to fiscal year 2018 was preliminarily due to increased assessments on properties under PILOT Agreements that have completed construction. The deferred bond refunding costs resulted from the bond refunding transaction and represents the difference between removing the carrying amount of the refunded FY07 Bonds and FY12 Bonds and recording the FY17 Bonds. Such amount declines each year as the amount is amortized over the life of the bonds.

The large negative unrestricted net position (deficit) balances at June 30, 2020, 2019 and 2018 were primarily due to the issuance of bonds that will be repaid from future revenues.

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

HYIC reports governmental activity using three funds: (1) a general fund ("GF"), (2) a debt service fund ("DSF"), and (3) a capital projects fund ("CPF").

The following summarizes the changes in the GF balances for the years ended June 30, 2020, 2019, and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Revenues:					
Program revenue	$ -	$ 1,240	$ -	$ (1,240)	$ 1,240
Other revenue	6,617	13,816	11,234	(7,199)	2,582
Total revenues	6,617	15,056	11,234	(8,439)	3,822
Expenditures	351,752	100,981	704	250,771	100,277
Other financing sources (uses)	289,331	79,631	166,372	209,700	(86,741)
Net change in fund balances	(55,804)	(6,294)	176,902	(49,510)	(183,196)
Fund balance - beginning of year	204,381	210,675	33,773	(6,294)	176,902
Fund balance - end of year	$ 148,577	$ 204,381	$ 210,675	$ (55,804)	$ (6,294)

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

Operating expenditures in fiscal years 2020 and 2019 included a payment of surplus revenues to the City of $350 million and $100 million, respectively. This amount fluctuates as previously discussed.

Other financing sources primarily consists of transfers of Second Indenture surplus funds from the DSF to the GF, these amounts fluctuate as previously discussed.

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, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Revenues:					
Program revenue	$ 428,638	$ 252,285	$ 208,923	$ 176,353	$ 43,362
Other revenue	3,925	4,388	986	(463)	3,402
Total revenues	432,563	256,673	209,909	175,890	46,764
Expenditures	132,252	132,250	133,113	2	(863)
Other financing sources (uses)	(288,977)	(78,396)	(165,659)	(210,581)	87,263
Net change in fund balances	11,334	46,027	(88,863)	(34,693)	134,890
Fund balance - beginning of year	164,117	118,090	206,953	46,027	(88,863)
Fund balance - end of year	$ 175,451	$ 164,117	$ 118,090	$ 11,334	$ 46,027

Program revenue was greater in fiscal years 2020 and 2019 due to increased collections, as previously discussed.

Other financing sources (uses) mainly consist of transfers of Second Indenture surplus funds from the DSF to the GF, as previously discussed.

The following summarizes the changes in the CPF balances for the years ended June 30, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Revenues	$ 840	$ 2,030	$ 796	$ (1,190)	$ 1,234
Expenditures:					
Project costs	15,874	44,696	39,974	(28,822)	4,722
Other financing sources (uses)	191	(1,235)	(713)	1,426	(522)
Net change in fund balances	(14,843)	(43,901)	(39,891)	29,058	(4,010)
Fund balance - beginning of year	44,222	88,123	128,014	(43,901)	(39,891)
Fund balance - end of year	$ 29,379	$ 44,222	$ 88,123	$ (14,843)	$ (43,901)

The CPF revenues are comprised of interest earnings.

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

Other financing sources (uses) during fiscal years 2020, 2019 and 2018 mainly reflect the transfer of interest collected on unspent bond proceeds from the CPF to the DSF, to be used to pay debt service, in accordance with the terms of the applicable Indentures.

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, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Assets:					
Unrestricted cash equivalents	$ 148,817	$ 204,509	$ 210,710	$ (55,692)	$ (6,201)
Other receivables	36	-	8,825	36	(8,825)
Total assets	$ 148,853	$ 204,509	$ 219,535	$ (55,656)	$ (15,026)
Liabilities:	$ 276	$ 128	$ 36	$ 148	$ 92
Deferred inflows of resources:					
Unavailable arbitrage rebate refund	-	-	8,824	-	(8,824)
Fund Balances:					
Unassigned	148,577	204,381	210,675	(55,804)	(6,294)
Total fund balances	148,577	204,381	210,675	(55,804)	(6,294)
Total liabilities, deferred inflows of resources and fund balances	$ 148,853	$ 204,509	$ 219,535	$ (55,656)	$ (15,026)

The GF assets are mainly comprised of transfers of Second Indenture surplus funds from the DSF to the GF, which fluctuates each year as previously discussed. Other receivables and deferred inflows of resources in fiscal year 2018 were comprised of an arbitrage rebate refund that was measurable, but not available to finance expenditures in fiscal year 2018.

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, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Assets:					
Restricted cash equivalents and investments	$ 233,594	$ 224,341	$ 133,189	$ 9,253	$ 91,152
Due from capital projects fund	254	30	15	224	15
Total assets	$ 233,848	$ 224,371	$ 133,204	$ 9,477	$ 91,167
Deferred inflows of resources:					
Prepaid PILOT	$ 58,397	$ 60,254	$ 15,114	$ (1,857)	$ 45,140
Fund balances:					
Restricted	175,451	164,117	118,090	11,334	46,027
Total fund balances	175,451	164,117	118,090	11,334	46,027
Total deferred inflows of resources and fund balances	$ 233,848	$ 224,371	$ 133,204	$ 9,477	$ 91,167

The change in total assets between fiscal years is generally based on the difference between the collections of revenue and amounts retained for the following year's debt service during the fiscal year.

HYIC received PILOT payments for assessments attributable to the next fiscal year; the prepaid amount is reported as deferred inflows of resources and the increase in fiscal year 2019 when compared to fiscal year 2018 was primarily due to increased assessments on properties under PILOT Agreements that have completed construction.

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, 2020, 2019 and 2018:

	2020	2019	2018	Change 2020 vs 2019	Change 2019 vs 2018
Assets:					
Restricted cash equivalents and investments	$ 36,096	$ 47,137	$ 95,885	$ (11,041)	$ (48,748)
Total assets	$ 36,096	$ 47,137	$ 95,885	$ (11,041)	$ (48,748)
Liabilities:					
Project costs payable	$ 6,463	$ 2,885	$ 7,747	$ 3,578	$ (4,862)
Due to debt service fund	254	30	15	224	15
Total liabilities	6,717	2,915	7,762	3,802	(4,847)
Fund balances:					
Restricted	29,379	44,222	88,123	(14,843)	(43,901)
Total fund balances	29,379	44,222	88,123	(14,843)	(43,901)
Total liabilities and fund balances	$ 36,096	$ 47,137	$ 95,885	$ (11,041)	$ (48,748)

CPF assets on hand at June 30, 2020, 2019, and 2018 represented unspent bond proceeds. The decrease in fund balances each year reflected Project expenditures made during that year.

ECONOMIC OUTLOOK

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, which continues to spread throughout the United States. HYIC could be materially and adversely affected by the risks, or the public perception of the risks, related to an epidemic, pandemic, outbreak, or other public health crisis, such as the recent outbreak of COVID-19. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on HYIC will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. Accordingly, HYIC cannot predict the extent to which it will be affected. In April 2020, HYIC received a negative outlook by Moody's and by Fitch.

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, 2020 AND 2019 (amounts in thousands)

	2020	2019
ASSETS:		
Unrestricted cash equivalents	$ 122,708	$ 203,349
Restricted cash equivalents	103,515	157,351
Unrestricted investments	26,106	1,079
Restricted investments	166,175	114,002
Interest receivable	3	206
Receivable - other	36	-
Total assets	418,543	475,987
LIABILITIES:		
Project costs payable	6,086	2,137
Accrued expenses	276	128
Payable to The City of New York	255	623
Payable to Hudson Yards Development Corporation	122	125
Accrued bond interest payable	49,962	49,961
Contingent liabilities	-	18,011
Long-term debt:		
Portion due within one year	9,955	-
Portion due after one year	2,974,000	2,999,495
Total liabilities	3,040,656	3,070,480
DEFERRED INFLOWS OF RESOURCES:		
Prepaid PILOT	58,397	60,254
Unamortized deferred bond refunding costs	20,146	20,921
Total deferred inflows of resources	78,543	81,175
NET POSITION (DEFICIT):		
Restricted for capital projects	29,379	26,211
Unrestricted (deficit)	(2,730,035)	(2,701,879)
Total net position (deficit)	$ (2,700,656)	$ (2,675,668)

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, 2020 AND 2019 (amounts in thousands)

	2020	2019
REVENUES:		
District improvement bonus revenue	$ 120,907	$ 38,638
Tax equivalency payment revenue	129,847	113,347
PILOMRT revenue	57,130	70,532
PILOT revenue	120,754	31,008
Other revenue	1,776	10
Investment income	9,606	11,400
Total revenues	440,020	264,935
EXPENSES:		
Project - subway extension	4,423	20,538
Project - land acquisition and public amenities	(7,914)	12,647
Project - transfer to Hudson Yards Development Corporation	1,355	1,186
Interest expenses	115,392	115,390
Payments to The City of New York	350,000	100,000
General and administrative	1,752	981
Total expenses	465,008	250,742
CHANGE IN NET POSITION (DEFICIT)	(24,988)	14,193
NET POSITION (DEFICIT) - beginning of year	(2,675,668)	(2,689,861)
NET POSITION (DEFICIT) - end of year	$ (2,700,656)	$ (2,675,668)

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, 2020 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:				
Unrestricted cash equivalents	$ 122,708	$ -	$ -	$ 122,708
Restricted cash equivalents	-	101,107	2,408	103,515
Unrestricted investments	26,106	-	-	26,106
Restricted investments	-	132,487	33,688	166,175
Interest receivable	3	-	-	3
Due from capital projects fund	-	254	-	254
Other receivables	36	-	-	36
Total assets	$ 148,853	$ 233,848	$ 36,096	$ 418,797
LIABILITIES:				
Project costs payable	$ -	$ -	$ 6,086	$ 6,086
Accounts payable	276	-	-	276
Due to debt service fund	-	-	254	254
Payable to The City of New York	-	-	255	255
Payable to Hudson Yards Development Corporation	-	-	122	122
Total liabilities	276	-	6,717	6,993
DEFERRED INFLOWS OF RESOURCES:				
Prepaid PILOT	-	58,397	-	58,397
Total deferred inflows of resources	-	58,397	-	58,397
FUND BALANCES:				
Restricted for:				
Debt service	-	175,451	-	175,451
Capital projects	-	-	29,379	29,379
Unassigned	148,577	-	-	148,577
Total fund balances	148,577	175,451	29,379	353,407
Total liabilities, deferred inflows of resources and fund balances	$ 148,853	$ 233,848	$ 36,096	$ 418,797

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, 2019 (amounts in thousands)

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

See notes to financial statements.

**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2020 AND 2019 (amounts in thousands)**

	2020	2019
Total fund balances - governmental funds	$ 353,407	$ 412,720
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.	(259,540)	(275,625)
Costs of bond refundings are reported as expenditures in the governmental funds financial statements. However, in the statements of net position (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	(20,146)	(20,921)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements, but are reported in the statements of net position (deficit). Those liabilities are:		
Bonds payable	(2,723,870)	(2,723,870)
Accrued bond interest payable	(49,962)	(49,961)
Construction loan	(545)	-
Contingent liabilities	-	(18,011)
Net position (deficit) - governmental activities	$ (2,700,656)	$ (2,675,668)

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, 2020 (amounts in thousands)

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:				
District improvement bonus revenue	$ -	$ 120,907	$ -	$ 120,907
Tax equivalency payment revenue	-	129,847	-	129,847
PILOMRT revenue	-	57,130	-	57,130
PILOT revenue	-	120,754	-	120,754
Other revenue	1,776	-	-	1,776
Investment income	4,841	3,925	840	9,606
Total revenues	6,617	432,563	840	440,020
EXPENDITURES:				
Project - subway extension	-	-	4,423	4,423
Project - land acquisition and public amenities	-	-	10,096	10,096
Project - transfers to Hudson Yards Development Corporation	-	-	1,355	1,355
Interest expenses	-	132,252	-	132,252
Payment to The City of New York	350,000	-	-	350,000
General and administrative	1,752	-	-	1,752
Total expenditures	351,752	132,252	15,874	499,878
OTHER FINANCING SOURCES (USES):				
Construction loan	-	-	545	545
Transfers in (out)	289,331	(288,977)	(354)	-
Total other financing sources (uses)	289,331	(288,977)	191	545
NET CHANGE IN FUND BALANCES	(55,804)	11,334	(14,843)	(59,313)
FUND BALANCES - beginning of year	204,381	164,117	44,222	412,720
FUND BALANCES - end of year	$ 148,577	$ 175,451	$ 29,379	$ 353,407

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, 2019 (amounts in thousands)

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

See notes to financial statements.

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, 2020 AND 2019 (amounts in thousands)

	2020	2019
Net change in fund balances - total governmental funds	$ (59,313)	$ (4,168)
Amount reported in the statements of activities are different because:		
Governmental funds financial statements report bond premiums as other financing source upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	16,085	16,085
Loan proceeds provide current financial resources to the governmental funds, but debt issued increased long-term liabilities on the statements of net position (deficit).	(545)	-
The governmental funds financial statements report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to refund the bonds.	775	775
Other revenue not available in the current period is deferred in the governmental funds financial statements and included in revenue in the statements of activities.	-	(8,824)
Contingent liabilities are reported on the statements of activities on the accrual basis. However, contingent expenditures are reported in the governmental funds financial statements when they are incurred or paid.	18,010	10,325
Change in net position (deficit) - governmental activities	$ (24,988)	$ 14,193

See notes to financial statements.

1. ORGANIZATION

Hudson Yards Infrastructure Corporation ("HYIC") is a local development corporation established by The City of New York (the "City") under Article 14 of the Not-for-Profit Corporation Law of the State of New York. HYIC's purpose is the financing of certain infrastructure improvements in the Hudson Yards area on the West Side of Manhattan (the "Project"). HYIC does not engage in development directly, but finances development spearheaded by Hudson Yards Development Corporation ("HYDC") and carried out by existing public entities. The Project is in an area generally bounded by Seventh and Eighth Avenues on the east, West 43rd Street on the north, Twelfth Avenue on the west and West 29th and 30th Streets on the south (the "Project Area"). The Project consists of: (1) design and construction of an extension of the No. 7 Subway from Seventh Avenue and 41st Street to Eleventh Avenue and West 34th Street (the "Subway Extension"), (2) acquisition from the Metropolitan Transportation Authority ("MTA") of certain transferable development rights over its rail yards between Tenth and Eleventh Avenues and between West 30th and West 33rd Streets ("Eastern Rail Yards" or "ERY"), (3) construction of a system of parks, public open spaces, and streets in the Project Area ("Public Amenities") and (4) property acquisition for the Project. The subway extension began service in September 2015 and the construction of a portion of Hudson Park and Boulevard was completed and opened to the public in August 2015.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

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

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 sixty-days after period end. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable and estimated arbitrage rebate liability, which are recognized when due.

HYIC uses three governmental funds for reporting its activities: a General Fund ("GF"), a Debt Service Fund ("DSF") and a Capital Projects Fund ("CPF"). The DSF is used to account for the receipt and disbursement of resources used to pay interest on and principal of long-term debt. The CPF is used to account for the bond issuances and proceeds and for project expenditures. The GF is used to account for all financial resources not accounted for in the DSF or the CPF, generally those used or held for use for administrative expenditures and arbitrage rebate expenditures. HYIC accounts for its activities in accordance with the Trust Indenture between HYIC and US Bank dated December 1, 2006, as amended (the "First Indenture"), Second Trust Indenture dated May 1, 2017 (the "Second Indenture") and Third Supplemental Trust Indenture dated February 1, 2019 (the "Third Indenture"), collectively, the ("Indentures").

Fund Balance

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash Equivalents

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

Capital Assets

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

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

Revenues

HYIC revenues include:

(1) Interest Support Payments ("ISP") are made by the City under the terms of the Amended and Restated Support and Development Agreement and the Additional Borrowing Hudson Yards Support Agreement (together the "Agreement") that obligates the City to pay to HYIC, subject to annual appropriation, ISP on up to $3.35 billion of HYIC debt, for so long as such debt is outstanding, in an amount equal to the difference between the amount of funds available to HYIC to pay interest on debt and the amount of interest due on such debt;

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Arbitrage Rebate

To maintain the exemption from Federal income tax of interest on HYIC tax exempt debt, HYIC will fund amounts required to be rebated to the Federal Government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, or within 60 days after retirement of the bonds. In February 2012, HYIC made an initial installment payment of $8.8 million relating to its Series 2007A bonds. However, as of the final computation date of its Series 2007A bonds the arbitrage rebate liability was negative and the $8.8 million payment was refunded back to HYIC in fiscal year 2019.

Bond Premium and Issuance Costs

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

Deferred Bond Refunding Costs

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Recent Accounting Pronouncements

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

- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, ("GASB 84"). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. The adoption of GASB 84 did not have an impact on HYIC's financial statements, as it does not enter into fiduciary activities.
- In June 2017, GASB issued Statement No. 87, *Leases*, ("GASB 87"). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are a financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. HYIC has not completed the process of evaluating GASB 87 but does not expect it to have an impact on HYIC's financial statements, as it does not enter into lease agreements.
- In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*, ("GASB 90"). GASB 90 clarifies the accounting and financial reporting requirements for a state and local government's majority equity interest in an organization that remains legally separate after acquisition. The requirements of GASB 90 are effective for fiscal years beginning after December 15, 2018. The adoption of GASB 90 did not have an impact on HYIC's financial statements, as it has not made such acquisitions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In January 2020, GASB issued Statement No. 92, *Omnibus 2020*, ("GASB 92"). GASB 92 enhances the comparability in accounting and financial reporting as well as improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements for GASB 92 are effective for reporting periods beginning after June 15, 2020. HYIC has not completed the process of evaluating GASB 92 but does not expect it to have an impact on HYIC's financial statements.
- In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, ("GASB 93"). GASB 93 addresses those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate ("IBOR") – most notably, the London Interbank Offered Rate ("LIBOR") resulting from global reference rate reform. LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements for GASB 93 are effective for reporting periods beginning after June 15, 2020. HYIC has not completed the process of evaluating GASB 93 but does not expect it to have an impact on HYIC's financial statements.
- In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* ("GASB 94"). GASB 94 improves financial reporting by addressing issues related to public-private and public-public partnership arrangements ("PPPs"). The requirements for GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. HYIC has not completed the process of evaluating GASB 94 but does not expect it to have an impact on HYIC's financial statements as it does not enter into PPPs.
- In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, ("GASB 95"). GASB 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.
- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements,* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for government end users (governments). The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. HYIC has not completed the process of evaluating GASB 96 but does not expect it to have an impact on HYIC's financial statements as it does not enter into SBITAs.

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (continued) (amounts in thousands, except as noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans,* ("GASB 97"). The objectives of GASB 97 are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. HYIC has not completed the process of evaluating GASB 97 but does not expect it to have an impact on HYIC's financial statements.

3. CASH AND CASH EQUIVALENTS

As of June 30, 2020 and 2019, HYIC did not have any cash deposits on hand.

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

	2020	2019
Unrestricted :		
Cash Equivalents	$ 122,708	$ 203,349
Total unrestricted	122,708	203,349
Restricted:		
Cash Equivalents	103,515	157,351
Total restricted	103,515	157,351
Total Cash Equivalents	$ 226,223	$ 360,700

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (continued) (amounts in thousands, except as noted)

4. INVESTMENTS

HYIC's investments consisted of the following at June 30:

	2020	2019
Unrestricted:		
Money Market Funds	$ 122,708	$ 7,121
U.S. Treasury Bill (maturing within one year)	26,106	196,228
U.S. Treasury Note (maturing within one year)	-	1,079
Total Unrestricted	148,814	204,428
Restricted for Debt Service:		
Money Market Funds	60,105	11,248
U.S. Treasury Bill (maturing within one year)	173,489	194,707
U.S. Treasury Notes (maturing within one year)	-	18,274
Total Restricted for Debt Service	233,594	224,229
Restricted for Capital Projects:		
Money Market Funds	2,408	4,489
U.S. Treasury Bill (maturing within one year)	33,688	-
U.S. Treasury Notes (maturing within one year)	-	42,635
Total Restricted for Capital Projects	36,096	47,124
Total Investments including cash equivalents	418,504	475,781
Less amounts reported as cash equivalents (see Note 3)	(226,223)	(360,700)
Total Investments	$ 192,281	$ 115,081

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

4. INVESTMENTS (continued)

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, 2020 and 2019:

- Money Market Funds are valued based on various market and industry inputs (Level 2 inputs).

- U.S. Treasury securities of $233 million and $453 million, respectively, are valued based on various market and industry inputs (Level 2 inputs).

Custodial Credit Risk

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

Credit Risk

All investments held by HYIC at June 30, 2020 and 2019 are obligations of, or guaranteed by, the United States of America, which are rated by S&P AA+, Moody's Aaa, and Fitch AAA; and money market funds invested in eligible government obligations, which are rated by S&P AAAm and Moody's Aaa-mf.

Interest Rate Risk

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of HYIC's investments in a single issuer (5% or more). HYIC's investment policy places no limits on the amount HYIC may invest in any one issuer of eligible investments as defined in the Indentures. As of June 30, 2020 and 2019, 100% of HYIC's investments are in eligible government obligations or in money market funds invested in eligible government obligations.

5. LONG-TERM LIABILITIES

Changes in Long-term Liabilities

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

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

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

On February 1, 2019, HYIC entered into a Term Loan Agreement (“Loan”) which presently provides for up to $200 million to finance additional infrastructure projects in the Project Area. As of June 30, 2020 and 2019, the Loan had an outstanding balance of $545 thousand and $0, respectively.

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (continued) (amounts in thousands, except as noted)

5. LONG-TERM LIABILITIES (continued)

Outstanding debt: 1) is secured by the revenues (as defined in the Indentures) and with pledged collateral consisting of all money and securities deposited in funds, accounts, and subaccounts as provided pursuant to the applicable Indentures, and 2) bears interest at fixed rates ranging from 3% to 5.75%.

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2020 follows:

Bonds/Loan	**Balance June 30, 2019**	**Additions**	**Deletions**	**Balance June 30, 2020**
Fiscal 2012 Series A	$ 582,110	$ -	$ -	$ 582,110
Fiscal 2017 Series A	2,108,465	-	-	2,108,465
Fiscal 2017 Series B	33,295	-	-	33,295
Construction loan	-	545	-	545
Total before premium	2,723,870	545	-	2,724,415
Premium	275,625	-	(16,085)	259,540
Total debt	$ 2,999,495	$ 545	$ (16,085)	2,983,955
Due Within One Year				$ 9,955

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

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019 (continued) (amounts in thousands, except as noted)

5. LONG-TERM LIABILITIES (continued)

A summary of changes in outstanding bonds and other long-term debt during the year ended June 30, 2019 follows:

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

Debt service requirements on bonds, including principal and interest, at June 30, 2020, are as follows:

	First Indenture Bonds		Second Indenture Bonds		Total		
Years Ended June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Debt Service
2021	$ 9,955	$ 31,679	$ -	$ 100,571	$ 9,955	$ 132,250	$ 142,205
2022	10,500	31,137	42,690	100,571	53,190	131,708	184,898
2023	11,070	30,566	44,675	98,585	55,745	129,151	184,896
2024	11,670	29,964	46,825	96,433	58,495	126,397	184,892
2025	12,305	29,328	49,090	94,169	61,395	123,497	184,892
2026 to 2030	72,330	135,838	284,520	431,780	356,850	567,618	924,468
2031 to 2035	94,285	113,893	362,870	353,437	457,155	467,330	924,485
2036 to 2040	122,895	85,289	460,135	256,167	583,030	341,456	924,486
2041 to 2045	160,165	48,006	580,955	135,339	741,120	183,345	924,465
2046 to 2047	76,935	6,336	270,000	16,306	346,935	22,642	369,577
Totals	$ 582,110	$ 542,036	$ 2,141,760	$ 1,683,358.00	$ 2,723,870	$ 2,225,394	$ 4,949,264

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.

5. 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 ended June 30, 2013 and 2012, the Claimants did not submit amended appraisals. In view of the aforesaid determination by the Courts rejecting the Claimants' appraisals, the Corporation's potential liability as of June 30, 2013 and 2012, if any, with respect to these claims was not estimable and therefore any accrued estimated liabilities were removed from HYIC's financial statements for those years.

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

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

Since the recalculation of the contingent liability in fiscal year 2015, the contingent liability has been adjusted for settled cases and accrued interest resulting in an amount of $0 million and $18 million as of June 30, 2020 and 2019, respectively. As of June 30, 2020, all cases have been settled.

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