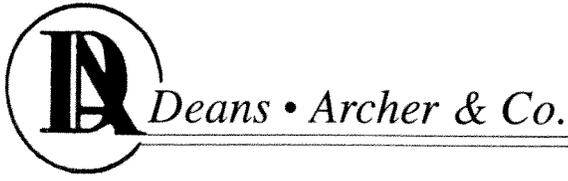


**BROOKLYN NAVY YARD DEVELOPMENT
CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT AND
SUPPLEMENTARY INFORMATION
June 30, 2013
(With comparative totals for 2012)**

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR’S REPORT AND
SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brooklyn Navy Yard
Development Corporation
Brooklyn, New York

We have audited the accompanying consolidated statements of net assets of Brooklyn Navy Yard Development Corporation, ("BNYDC"), as of June 30, 2013 and 2012, and the related consolidated statements of revenues, expenses, and change in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Navy Yard Development Corporation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government *Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of BNYDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BNYDC's internal control over financial reporting and compliance.

Deans Archer & Co

Valley Stream, New York
September 13, 2013

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2013 and 2012

This section of the Brooklyn Navy Yard Development Corporation's ("BNYDC") annual financial report presents our management analysis of BNYDC's financial performance during the fiscal year that ended on June 30, 2013.

Overview of BNYDC and the Consolidated Financial Statements

BNYDC is responsible for the leasing, management, and development of the Brooklyn Navy Yard for industrial, maritime, and commercial uses. The corporation operates under a lease with The City of New York that, after exercising all renewal periods, expires in 2111 and also under an annual management contract. BNYDC has the dual responsibility of generating revenues to cover all of its operating expenses while simultaneously implementing strategies to retain and increase employment. The Corporation is also responsible for the maintenance of the Navy Yard's roadways, utility distribution systems, fire hydrants, water and sewage, sanitation, snow removal, and street security. For the fiscal year ended June 30, 2013, BNYDC incurred an operating loss of (\$7,653,305). However, when depreciation and amortization (non-cash items) are factored out, BNYDC realized an excess of operating revenue over operating expenses of \$7,118,999 (\$14,772,304 less \$7,653,305). This resulted in a positive cash flow of \$7,796,018 provided by operating activities.

Financial Highlights

BNYDC's consolidated financial statements reveal that the corporation is in excellent condition. This is evidenced by the following:

- The corporation's cash and cash equivalents, including reserved cash, totaled \$83,334,267 at June 30, 2013.
- Current assets stand at \$96,275,600 vs. current liabilities of \$12,065,804
- BNYDC operated with a working capital position of \$84.2 million on a \$33 million budget
- Investment in property and equipment grew by \$21.3 million
- BNYDC generated positive cash flows of approximately \$7.8 million from operations

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2013 and 2012

Statement of Net Assets Analysis

	<u>2013</u>	<u>2012</u>	<u>% Increase (Decrease) 2013-2012</u>
Cash and Cash Equivalents (Including Reserve Cash)	\$ 83,334,267	\$ 43,466,207	92%
Working Capital	84,209,796	46,766,245	80%
Property and Equipment	286,951,760	265,700,225	8%
Total Net Assets	263,242,962	252,169,264	4%

Assets

The increases in cash and cash equivalents, reserve cash, and working capital, and the increase in property and equipment resulted mainly from the drawdowns of the development loans, and the capital investments made in the waterfront, the electric distribution system, the buildings, the water/sewer systems, and equipment for operating activities. The increase in total net assets is a direct result of The City of New York and BNYDC's capital investments in the Navy Yard.

Statement of Revenue and Expense Analysis

	<u>2013</u>	<u>2012</u>	<u>% Increase (Decrease) 2013-2012</u>
Rent Revenue	\$ 26,985,512	\$ 25,548,677	6%
Total Operating Revenues	33,070,779	31,984,933	3%
Depreciation and Amortization	14,772,304	13,537,511	9%
Property Insurance	1,121,543	853,324	31%
Total Operating Expenses	40,724,084	37,956,889	7%

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2013 and 2012

Statement of Revenue and Expense Analysis

BNYDC manages and leases over 4,000,000 square feet of industrial and commercial space under roof as well as six (6) dry docks and four (4) finger piers. By leasing these properties, BNYDC generates revenues to cover its operating costs, as well as surplus monies that are reinvested in the facility. Properties are leased to tenants on both a short term and long term basis. In addition, BNYDC facilitates business growth and expansion on the part of our tenants by creating an environment that compliments their business and therefore helps create jobs.

Revenue

The demand for industrial space continued to be strong during fiscal year 2013. BNYDC realized an increase in rent revenues of 6 % mainly as a result of higher base payments due to lease renewals and tenant turnover. The total operating revenues are up 3% for fiscal year 2013.

Expenses

Total operating expenses increased by 7%, due mainly to increases in personnel and fringe benefits and insurance costs and depreciation and amortization charges. Insurance costs increased by 31%. This is mainly due to the increases in BNYDC overall property premium and flood insurance coverage.

On October 29, 2012 Superstorm Sandy caused flooding at the Navy Yard. This unusual and infrequent disaster resulted in damages to some buildings. As at June 30, 2013 BNYDC received insurance proceeds of \$3,075,000 and spent \$4,888,604 in repairs and cleaning, resulting in an extraordinary loss of \$1,813,604.

Capital Infrastructure Investment

BNYDC entered into a second credit agreement with New York City Regional Center to borrow \$42,000,000 to finance construction and building improvements in the Navy Yard. At the end of the fiscal year \$41,000,000 was borrowed.

On June 19, 2012 BNYDC created three for-profit companies to generate historic and new market tax credits to finance and rehabilitate a building in the Navy Yard, known as the Building 128 Complex (“the Building”).

Although the Navy Yard is performing excellently within its operating budget, it still requires substantial investment for its capital infrastructure. Much of this requirement is the result of close to fifty years of maintenance and lack of any capital investment. Another reason is the ever-escalating costs in maintaining waterfront properties, including aging bulkheads and piers that are eaten away by both time and marine life.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF NET ASSETS
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents (Note 4)	\$ 5,930,858	\$ 9,491,207
Reserved Cash (Note 4)	77,403,409	33,975,000
Accounts Receivables: Less Allowance for Doubtful		
Accounts of \$2,831,874 in 2013 and \$1,946,034 in 2012	1,811,286	2,092,784
Receivable from Grants and Contracts (Note 9)	10,311,637	15,286,084
Prepaid Expenses and other Current Assets	<u>818,410</u>	<u>657,566</u>
Total Current Assets	96,275,600	61,502,641
Cash-tenants' Security Deposits	2,805,440	2,214,921
Community Development Note Receivable (Note 5)	17,687,500	-
Property and Equipment, Net (Note 6)	<u>286,951,760</u>	<u>265,700,225</u>
Total Assets	<u>\$ 403,720,300</u>	<u>\$ 329,417,787</u>
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable and Accrued Expenses	\$ 2,973,583	\$ 1,267,692
Unearned Revenue (Note 7)	<u>9,092,221</u>	<u>13,468,704</u>
Total Current Liabilities	12,065,804	14,736,396
Tenants' Security Deposits	2,805,440	2,214,921
Unearned Revenue (Note 7)	286,094	297,206
Development Loans (Note 12)	101,000,000	60,000,000
Community Development Loan (Note 13)	<u>24,320,000</u>	<u>-</u>
Total Liabilities	<u>140,477,338</u>	<u>77,248,523</u>
Net Assets (Note 2)		
Invested in Capital Assets, Net of Related Debt	220,319,260	205,700,225
Operating	<u>42,923,702</u>	<u>46,469,039</u>
Total Net Assets	<u>\$ 263,242,962</u>	<u>\$ 252,169,264</u>

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Rents	\$ 26,985,512	\$ 25,548,677
Additional Rent (Insurance Premium)	428,834	363,087
Utilities	4,756,116	5,163,368
Grants	524,358	674,020
Other Income	<u>375,959</u>	<u>235,781</u>
Total Operating Revenues	<u>33,070,779</u>	<u>31,984,933</u>
OPERATING EXPENSES		
<i>Property Management</i>		
Personnel and Fringe Benefits	8,384,564	7,755,655
Utilities	5,845,955	5,684,562
Property Insurance	1,121,543	853,324
Provision for Bad Debts	1,013,420	1,148,526
Other Operating and Maintenance	2,961,911	2,708,662
Depreciation and Amortization	<u>14,772,304</u>	<u>13,537,511</u>
Total Property Management	<u>34,099,697</u>	<u>31,688,240</u>
<i>General and Administrative</i>		
Personnel and Fringe Benefits (Schedule II)	4,822,801	4,323,220
Other (Schedule II)	<u>1,801,586</u>	<u>1,945,429</u>
Total General and Administrative	<u>6,624,387</u>	<u>6,268,649</u>
Total Operating Expenses	<u>40,724,084</u>	<u>37,956,889</u>
Operating Loss	(7,653,305)	(5,971,956)
NON-OPERATING REVENUE (EXPENSES)		
Interest Expense	(757,326)	(752,483)
Interest and Investment Income	<u>115,461</u>	<u>28,098</u>
Loss before Capital Contributions and Transfers	(8,295,170)	(6,696,341)
<i>Capital Contributions</i>		
City of New York Capital Budget (Note 9)	<u>21,182,472</u>	<u>26,818,750</u>
Change in Net Assets before Extraordinary Item	12,887,302	20,122,409
Extraordinary Item (Note 10)	<u>(1,813,604)</u>	<u>-</u>
Change in Net Assets	11,073,698	20,122,409
Total Net Assets at Beginning of Year	<u>252,169,264</u>	<u>232,046,855</u>
Total Net Assets at End of Year	<u>\$ 263,242,962</u>	<u>\$ 252,169,264</u>

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants	\$ 33,302,277	\$ 31,230,131
Payments to Suppliers	(15,107,144)	(15,123,293)
Payments to Employees	<u>(10,399,115)</u>	<u>(9,426,505)</u>
Net Cash Provided by Operating Activities	<u>7,796,018</u>	<u>6,680,333</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	21,769,324	29,564,064
Note Receivable	(17,687,500)	-
Purchase of Capital Assets	(34,874,313)	(41,797,657)
Development Loan	<u>65,320,000</u>	<u>500,000</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>34,527,511</u>	<u>(11,733,593)</u>
CASH FLOWS (USED) BY EXTRAORDINARY ITEMS		
Superstorm Sandy	<u>(1,813,604)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reserve Cash Withdrawal	-	4,500,000
Interest Income	115,461	28,098
Interest Expense	<u>(757,326)</u>	<u>(752,483)</u>
Net Cash (Used) Provided by Investing Activities	<u>(641,865)</u>	<u>3,775,615</u>
Net Increase (Decrease) in Cash and Cash Equivalents	39,868,060	(1,277,645)
Cash and Cash Equivalent, including Reserve Cash at Beginning of Year	<u>43,466,207</u>	<u>44,743,852</u>
Cash and Cash Equivalent, including Reserve Cash at End of Year	<u>\$ 83,334,267</u>	<u>\$ 43,466,207</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (7,653,305)	\$ (5,971,956)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	14,772,304	13,537,511
Changes in Operating Assets and Liabilities:		
Decrease (Increase) in Receivable Net	231,498	(754,802)
(Increase) in Prepaid Expenses and other Current Assets	(160,844)	(42,168)
Increase (Decrease) in Accounts Payable and Accrued Expenses	<u>606,365</u>	<u>(88,252)</u>
Net Cash Provided by Operating Activities	<u>\$ 7,796,018</u>	<u>\$ 6,680,333</u>
SUPPLEMENTAL DISCLOSURE		
Interest Paid and Capitalized	<u>\$ 1,324,800</u>	<u>\$ 1,077,417</u>

The accompanying notes are an integral part of these consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1. ORGANIZATION

The predecessor-in-interest of the Brooklyn Navy Yard Development Corporation ("BNYDC") was organized in 1966. BNYDC is a not-for-profit corporation, pursuant to the not-for-profit law of the State of New York.

The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn to revitalize the economy and create job opportunities.

In 1971, BNYDC's predecessor-in-interest leased the Brooklyn Navy Yard from The City of New York ("The City") for the purpose of rehabilitating it and attracting new businesses and industry to the area. That lease was amended, restated and the term extended by a lease commencing July 1, 2012, for a period of 49 years with five 10-year extension periods.

The members of the Board of Directors serve at the pleasure of the Mayor of The City of New York. As such, BNYDC is considered a component unit of The City of New York for the purpose of The City of New York Comprehensive Annual Financial Report.

GMC SUBSIDIARY COMPANIES

On June 19, 2012 BNYDC created the following three for-profit companies to rehabilitate a building in the Navy Yard, known as the Building 128 Complex ("the Building"):

(i) GMC Brooklyn, Inc. ("GMC BK")

GMC BK is wholly owned by BNYDC.

(ii) GMC Landlord, LLC ("GMC Landlord")

GMC Landlord holds a 55-year sublease of the Building from BNYDC and has tax ownership over the property. GMC Landlord is a LLC, which is owned 90% by GMC BK, and 10% by GMC Master Tenant. GMC BK is the managing member.

(iii) GMC Master Tenant, LLC ("GMC Master Tenant")

GMC Master Tenant holds a 39-year sublease of the property from GMC Landlord. As of June 30, 2013 GMC Master Tenant was wholly owned by BNYDC.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed by BNYDC are described below:

Revenue Recognition

Revenue from rental of space and other charges are recorded based on the lease agreements.

Property and Leasehold Improvements

Machinery, office equipment, leasehold improvements/buildings and water/sewer systems are recorded at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method based upon estimated useful lives, as follows:

<u>Asset</u>	<u>Years</u>
Machinery and Automobiles	3
Office Equipment	2-5
Lease-hold Improvements/Buildings	21-50
Water/Sewer Systems	21-75

Concentration of Credit Risk

BNYDC invests its cash in deposits with major financial institutions. The investments generally mature within 90 days and BNYDC has not experienced losses related to these investments.

Cash Equivalents

For the purpose of the consolidated statement of cash flows, BNYDC considers short-term investments with maturities of 90 days or less to be cash equivalents.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (ASC 820)

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS 157 establishes a framework for measuring fair value and expands a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value and the expanded disclosures about fair value measurements.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- Level I input are quoted prices (unadjusted) in active markets for identical assets or liabilities BNYDC have the ability to access.
- Level II inputs are inputs (other than quoted prices included within Level I) that are observable for the asset or liability, either directly or indirectly.
- Level III inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Income Taxes

BNYDC is exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to BNYDC's tax-exempt purpose is subject to taxation as unrelated business income. In addition, BNYDC qualifies for the charitable contribution deduction under Section 170 (b) (1) (a) and has been classified as an organization other than a private foundation.

BNYDC recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. BNYDC does not believe that it has any uncertain tax positions with respect to these or other matters, and has not recorded any unrecognized tax benefits or liability for penalties or interest.

Generally the Internal Revenue Service (IRS) may examine a tax return for three years from the date it is filed. At June 30, 2013, tax years ended June 30, 2012, 2011 and 2010 remained open for possible examination by the IRS.

Prior Year Summarized Information

The consolidated financial statements contain certain prior year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the BNYDC's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Use of Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Subsequent Events (ASC 820)

In connection with the preparation of the consolidated financial statements and in accordance with *Auditing Standards Codification* (ASC 820) Topic 855, *Subsequent Events*, BNYDC evaluated subsequent events after the statement of financial position date of June 30, 2013 through September 13, 2013, which was the date the consolidated financial statements were available to be issued. On August 8, 2013 BNYDC sold a 99% interest in GMC Master Tenant for the net sum of \$2,291,160. BNYDC is not aware of any subsequent events that require recognition or disclosure in the consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compliance with SFAS No. 168; The FASB Accounting Standards Codification

The consolidated financial statements of BNYDC are included in The City of New York Comprehensive Annual Financial report of the Comptroller. Therefore, as a not-for-profit corporation, BNYDC is not required to comply with FASB ASC Topic 958.

Compliance with GASB 54

Because the consolidated financial statements of BNYDC are included in The City of New York Comprehensive Annual Financial Report of the Comptroller, BNYDC is required to disclose its fund balance (Net Assets) as shown below:

		<u>2013</u>		<u>2012</u>
Nonspendable	\$	818,410	\$	657,566
Restricted		500,000		500,000
Committed		220,319,260		205,700,225
Assigned		36,840,222		33,475,000
Unassigned		<u>4,765,070</u>		<u>11,836,473</u>
Total Fund Balance	\$	<u>263,242,962</u>	\$	<u>252,169,264</u>

NOTE 3. PENSION PLAN

BNYDC has non-contributory defined contribution pension plans for its administrative employees and its security guards. The union plans for Local 3 and Local 30 are part of their negotiated fringe benefit packages and are accounted for therein. BNYDC's policy is to fund pension cost accrued and there are no unfunded vested benefits. The pension plan expense for the years ended June 30, 2013 and 2012 was \$925,377 and \$807,107, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	<u>2013</u>	<u>2012</u>
FDIC Insured	\$ 5,307,259	\$ 9,491,207
Uninsured	623,599	-
	<u>\$ 5,930,858</u>	<u>\$ 9,491,207</u>

BNYDC maintains its cash in deposit accounts at high credit quality institutions.

<u>Reserved Cash</u>	<u>2013</u>	<u>2012</u>
Construction and Building Improvements	\$ 70,270,909	\$ 33,475,000
Community Development Loan The City of New York	6,632,500	-
	<u>500,000</u>	<u>500,000</u>
Government Securities	<u>\$ 77,403,409</u>	<u>\$ 33,975,000</u>

Cash reserved for construction and building improvements at June 30, 2013 and June 30, 2012 was \$76,903,409 and \$33,475,000, respectively.

Pursuant to the lease agreement with The City of New York, BNYDC is required to maintain a cash balance of \$5,000,000 in a reserve fund for the benefit of The City of New York. During the fiscal year 2012, BNYDC was granted permission by The City to utilize monies from the reserve to pay for City funded projects, leaving a balance of \$500,000.

NOTE 5. COMMUNITY DEVELOPMENT NOTE RECEIVABLE

On September 6, 2012 BNYDC entered into a 30 year loan in the amount of \$17,687,500 (“the Loan”) to NMTC Investment Fund LLC initially to assist in financing three different Community Development Entities (“CDEs”). The loan agreement provides for interest at a rate of 1.263% per annum. Repayment is interest only payable annually on any outstanding balances until November 15, 2019, and thereafter payment of principal and interest until maturity date.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6. PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following:

	<u>2013</u>	<u>2012</u>
Machinery and Automobiles	\$ 1,807,246	\$ 2,873,557
Office Equipment	1,176,661	1,080,945
Leasehold Improvements, Buildings, Water and Sewer	<u>396,604,367</u>	<u>361,658,493</u>
Total	399,588,274	365,612,995
Less: Accumulated Depreciation	<u>(112,636,514)</u>	<u>(99,912,770)</u>
Net: Property and Equipment	<u>\$ 286,951,760</u>	<u>\$ 265,700,225</u>

Depreciation expense for 2013 and 2012 amounted to \$14,772,304 and \$13,537,511, respectively.

NOTE 7. UNEARNED REVENUE

At June 30, 2013, Unearned Revenue relates to:

	<u>Current</u>	<u>Noncurrent</u>
Contract with The City of New York for the Rehabilitation of Capital Assets	\$ 9,036,109	-
Brooklyn Navy Yard Center 92	45,000	-
Forty-five (45) year Lease Agreement with Cogeneration Partners	<u>11,112</u>	<u>286,094</u>
Total	<u>\$ 9,092,221</u>	<u>\$ 286,094</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7. UNEARNED REVENUE (Continued)

At June 30, 2012, Unearned Revenue relates to:

	<u>Current</u>	<u>Noncurrent</u>
Contract with The City of New York for the Rehabilitation of Capital Assets	\$ 13,427,592	\$ -
Brooklyn Navy Yard Center 92	30,000	-
Forty-five (45) year Lease Agreement with Cogeneration Partners	<u>11,112</u>	<u>297,206</u>
Total	<u>\$ 13,468,704</u>	<u>\$ 297,206</u>

NOTE 8. LEASE WITH THE CITY OF NEW YORK

BNYDC is the lessee of the premises known as the Brooklyn Navy Yard under the terms of a lease ("Lease") with The City of New York ("Lessor"). The Lease after exercising all renewal periods will expire as of June 30, 2111. The Lease was amended effective June 1, 1996, to require, among other things, payment of Annual Base Rent by BNYDC in the amount of either (i) 100% of Net Operating Income, (as defined in Section 4.01 B (ii) of the Lease), or (iii) in such other amount as may be agreed to in writing by the parties with respect to a specific Lease Year. The Management Contract between The City of New York and BNYDC, covering FY 2013, provides that if BNYDC maintains a balance of \$5,000,000 in its Reserve Fund, then the Base Rent under the Lease for FY 2013 is zero. As discussed in Note 4 above, the cash balance as of June 30, 2013 is \$500,000. Since the reduction in the cash balance is with the approval of The City of New York, the base rent for FY 2013 remains at zero.

NOTE 9. CITY OF NEW YORK CAPITAL BUDGET

On June 30, 1996, BNYDC entered into the first in a series of annual management contracts with The City of New York for the replacement and rehabilitation of capital infrastructure to be funded from The City of New York's capital budget. For the years ended June 30, 2013 and 2012, BNYDC recognized \$21,182,472 and \$26,818,750, respectively, as capital contributions for rehabilitation work completed. Furthermore, the receivable from The City of New York for the rehabilitation work at June 30, 2013 and 2012 was \$10,311,637 and \$15,286,084, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 10. EXTRAORDINARY ITEM

On October 29, 2012 Superstorm Sandy caused flooding at the Navy Yard. This unusual and infrequent disaster resulted in damages to some buildings. As at June 30, 2013 BNYDC received insurance proceeds of \$3,075,000 and spent \$4,888,604 in repairs and cleaning, resulting in an extraordinary loss of \$1,813,604.

NOTE 11. LEASES WITH TENANTS

BNYDC has lease commitments from commercial tenants for space for periods ranging from one to more than fifty (50) years. Minimum future rental income from those leases are as follows:

2014	\$	24,096,000
2015		20,978,000
2016		19,388,000
2017		17,360,000
2018		13,831,000
2019-2023		61,950,000
2024-2028		51,865,000
2029-2033		44,500,000
2034-2038		45,800,000
2039-2043		32,298,000
2044-2048		30,618,000
2049-2053		33,661,000
2054-2058		37,460,000
2059-2063		41,207,000
2064-2068		45,304,000
2069		9,842,000
	\$	530,158,000

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 12 DEVELOPMENT LOANS

- i. On October 2, 2009 BNYDC entered into a credit agreement with New York City Regional Center to borrow \$60,000,000 to finance construction and building improvements in the Navy Yard and to repay a \$25,000,000 JPMorgan Chase Bank loan. The agreement provides for interest at a fixed rate of 3% per annum. Repayment is interest only, payable quarterly, on any outstanding balance until the maturity date at which time principal is payable. The maturity date is August 17, 2016, which may be extended at BNYDC's option for an additional five years at a rate not to exceed 6%. The collateral for this loan is the assignment of future rents.

- ii. On July 26, 2012, BNYDC entered into a second credit agreement with New York City Regional Center to borrow \$42,000,000 to finance improvements to a building in the Navy Yard. The agreement provides for interest at a fixed rate of 3% per annum. Repayment is interest only, payable quarterly, on any outstanding balance until the maturity date at which time principal is payable. The maturity date is the fifth anniversary of the last advance of the loan. The collateral for this loan is the assignment of future rents, subordinate to the first credit agreement with the New York Regional Center. As of June 30, 2013, the total amount borrowed was \$41,000,000, thus the maturity date will be at a date to be determined, but after June 30, 2018.

NOTE 13 COMMUNITY DEVELOPMENT LOAN

On September 6, 2012, GMC Landlord entered into six – 30 year loan agreements in the aggregate amount of \$24,320,000 with three Community Development Entities to finance the rehabilitation of the Building. The agreements provide for interest at the rate of 1% per annum. Repayment is interest only, payable annually, on any outstanding balances until November 1, 2019, and thereafter payments of principal and interest until the maturity date.

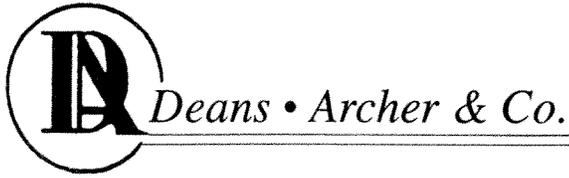
BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 14. COMMITMENT AND CONTINGENCIES

BNYDC is involved in general liability insurance claims relating to damages suffered by tenants and various other legal matters which are being defended and handled in the ordinary course of business. The liability, if any, associated with each of these matters is capped at \$50,000 per occurrence. Therefore, it is the opinion of management that their ultimate resolution will not have a materially adverse effect on BNYDC's financial position.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

SUPPLEMENTARY INFORMATION



CERTIFIED PUBLIC ACCOUNTANTS
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Valley Stream, New York 11580
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Brooklyn Navy Yard
Development Corporation
Brooklyn, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Brooklyn Navy Yard Development Corporation, (“BNYDC”), which comprise the consolidated statements of net assets, revenues, expenses and cash flows as of June 30, 2013, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered BNYDC’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of BNYDC’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BNYDC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deans Archer & Co

Valley Stream, New York
September 13, 2013

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
SCHEDULE OF PROPERTY MANAGEMENT REVENUE AND EXPENSES
For the year ended June 30, 2013
(With comparative totals for 2012)

	<u>NAVY YARD</u> <u>CENTER AT 92</u>	<u>BNYDC</u>	<u>2013</u>	<u>2012</u>
REVENUE	\$ 765,941	\$ 32,304,838	\$ 33,070,779	\$ 31,984,933
<i>Direct Expenses</i>				
Electricity Purchased	65,521	3,607,999	3,673,520	3,801,491
Steam Purchased	-	1,408,376	1,408,376	1,295,502
Water Purchased	-	764,059	764,059	587,569
Payroll and Related Fringe Benefits:				
Protective Services	93,389	2,776,817	2,870,206	2,745,684
Maintenance and Engineering	49,258	2,627,883	2,677,141	2,396,012
Utilities	-	297,460	297,460	266,224
Fringe Benefits	61,909	2,477,848	2,539,757	2,347,735
<i>Other Direct Expenses</i>				
Materials, Supplies and Building Maintenance	250,678	2,711,233	2,961,911	2,708,662
Property Insurance	21,111	1,100,432	1,121,543	853,324
Bad Debt	3,010	1,010,410	1,013,420	1,148,526
Total Direct Expenses	<u>544,876</u>	<u>18,782,517</u>	<u>19,327,393</u>	<u>18,150,729</u>
Revenue from Operations	<u>221,065</u>	<u>13,522,321</u>	<u>13,743,386</u>	<u>13,834,204</u>
<i>General and Administrative Expenses</i>				
Personnel and Fringe Benefits	736,554	4,086,247	4,822,801	4,323,220
Other	244,519	1,557,067	1,801,586	1,945,429
Total General and Administrative Expenses	<u>981,073</u>	<u>5,643,314</u>	<u>6,624,387</u>	<u>6,268,649</u>
Excess of Revenue Before Other Income and Expense	<u>(760,008)</u>	<u>7,879,007</u>	<u>7,118,999</u>	<u>7,565,555</u>
OTHER INCOME AND (EXPENSES)				
Interest Income	-	115,461	115,461	28,098
Interest Expense	-	(757,326)	(757,326)	(752,483)
Depreciation and Amortization	-	(14,772,304)	(14,772,304)	(13,537,511)
Total other Income and (Expenses)	<u>-</u>	<u>(15,414,169)</u>	<u>(15,414,169)</u>	<u>(14,261,896)</u>
Deficiency of Revenue Over Expenses and Loss Before Capital Contributions and Transfers	<u>\$ (760,008)</u>	<u>\$ (7,535,162)</u>	<u>\$ (8,295,170)</u>	<u>\$ (6,696,341)</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
PERSONNEL AND FRINGE BENEFIT EXPENSES		
Executive and Legal	\$ 1,024,512	\$ 911,331
Finance and Leasing	1,101,171	1,063,086
Human Resource	176,778	161,494
Development and External Affairs	549,828	456,250
Technology and Information	156,714	198,397
Building 92 and Employment Center	513,636	390,213
Payroll Taxes and Fringe Benefits	<u>1,530,939</u>	<u>1,380,772</u>
 Total	 5,053,578	 4,561,543
 Less Payroll and Related Costs Capitalized	 <u>(230,777)</u>	 <u>(238,323)</u>
 Total Personnel and Fringe Benefit Expenses	 <u>4,822,801</u>	 <u>4,323,220</u>
OTHER EXPENSES		
Legal	311,839	563,322
Accounting and Auditing	40,600	37,450
Computer Supplies/Contract	220,857	223,171
Postage	12,932	11,436
Telephone and Communication	139,825	112,895
Director's Liability Insurance	10,000	10,000
Corporate	66,780	58,466
Board	1,063	998
Community Employment	189,023	147,237
Advertising and Marketing	189,138	234,777
Stationery and Office Supplies	62,163	65,575
Consultants	72,123	61,875
Gasoline	152,762	137,468
Auto	235,834	237,870
Payroll Processing	18,972	16,800
Education and Training	47,179	39,510
Miscellaneous	<u>116,573</u>	<u>93,940</u>
 Total	 1,887,663	 2,052,790
 Less: other Expenses Capitalized	 <u>(86,077)</u>	 <u>(107,361)</u>
 Total Other Expenses	 <u>1,801,586</u>	 <u>1,945,429</u>
 Total General and Administrative Expenses	 <u>\$ 6,624,387</u>	 <u>\$ 6,268,649</u>