

**BROOKLYN NAVY YARD DEVELOPMENT
CORPORATION**
(A component of The City of New York)
**CONSOLIDATED FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY INFORMATION, WITH
INDEPENDENT AUDITOR'S REPORT**
June 30, 2016
(With comparative totals for 2015)

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
CONSOLIDATED FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTARY INFORMATION, WITH
INDEPENDENT AUDITOR'S REPORT
June 30, 2016 - (With comparative totals for 2015)

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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 financial statements of Brooklyn Navy Yard Development Corporation, ("BNYDC"), (A component of The City of New York), as of June 30, 2016 and 2015, and the related notes to the consolidated financial statements, which collectively comprise of BNYDC's basic consolidated financial statements as outlined in the table of contents.

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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of 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.

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 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, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. Generally Accepted Accounting Principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board, which 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise BNYDC's basic financial statements. The consolidated statement of revenues, expenses and changes in net position is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The consolidated statement of revenues, expenses and changes in net position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining statement of revenues, expenses and changes in net position is fairly stated, in all material respects, in relation to the basic 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 14, 2016 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.



Valley Stream, New York
September 14, 2016

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2016 and 2015

This section of the Brooklyn Navy Yard Development Corporation's, ("BNYDC"), (A component of The City of New York) annual financial report presents our management analysis of BNYDC's financial performance during the fiscal year that ended on June 30, 2016.

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 buildings, roadways, utility distribution systems, fire hydrants, water and sewage, sanitation, snow removal, and street security. For the fiscal year ended June 30, 2016, BNYDC incurred an operating loss of (\$10,496,677). However, when depreciation and amortization (non-cash items) are factored out, BNYDC realized an excess of operating revenue over operating expenses of \$7,034,483 (\$17,531,160 less \$10,496,677). This resulted in a positive cash flow of \$8,968,476 provided by operating activities.

Fiscal Year 2016 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 \$62,727,561 at June 30, 2016
- Current assets stand at \$66,251,157 vs. current liabilities of \$24,311,648
- BNYDC operated with a working capital position of \$42 million on a \$35 million budget
- Investment in property and equipment grew by \$77.7 million
- BNYDC generated positive cash flows of approximately \$9 million from operations

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2016 and 2015

Statement of Net Position Analysis

The following table summarizes BNYDC's financial position at June 30, 2016, 2015 and 2014 and the percentage changes between June 30, 2016 and 2015.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>% Change 2016-2015</u> |
|--|---------------|---------------|---------------|-------------------------------|
| Cash and Cash Equivalents (Including Reserved Cash) | \$ 62,727,561 | \$ 58,661,107 | \$ 81,961,753 | 7% |
| Working Capital | 41,939,509 | 42,921,030 | 73,149,760 | -2% |
| Property and Equipment | 432,624,594 | 354,927,003 | 308,078,363 | 22% |
| Total Net Position | 343,645,750 | 285,089,524 | 272,820,641 | 21% |

The cash and cash equivalents and reserved cash increased \$4 million or 7%, primarily the result of increase in the cash flows generated from the operating activities. The working capital decreased \$1 million or 2%, due to the increase in accounts payable and accrued expenses. The property and equipment increased \$78 million or 22%, resulted mainly from the capital investments made in the waterfront, the electric distribution system, buildings and equipment. During fiscal year 2016, total net position increased \$58 million or 21%. This increase in total net position 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

The following table summarizes BNYDC's change in net position for the fiscal years ended June 30, 2016, 2015 and 2014 and the percentage changes between fiscal years 2016 and 2015.

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>% Change 2016-2015</u> |
|--------------------------|---------------|---------------|--------------|-------------------------------|
| Rent Revenue | \$ 29,020,570 | \$ 28,051,112 | 27,721,011 | 3% |
| Total Operating Revenues | 36,250,591 | 35,268,736 | 35,076,968 | 3% |
| Utilities | 6,228,281 | 6,447,556 | 7,765,752 | -3% |
| Total Operating Expenses | 46,747,268 | 44,603,994 | 45,181,104 | 5% |
| Operating Loss | (10,496,677) | (9,335,258) | (10,104,136) | 12% |
| Change in Net Position | 58,556,226 | 12,268,883 | 9,577,679 | 377% |

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2016 and 2015

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 2016. BNYDC realized an increase in rent revenues of 3% mainly as a result of higher base payments due to lease renewals and tenant turnover. During the fiscal year 2016, the total operating revenues increased \$1 million or 3% primarily due to the \$1 million increase in rent revenue.

Expenses

Total operating expenses increased by \$2 million or 5%, due mainly to increases in depreciation and general and administrative expenses. The operating loss increased by 12%.

Net Position

During the fiscal year 2016, change in Net Position increased \$46 million or 377%. This increase is primarily due to the City of New York and BNYDC's capital investments in the Navy Yard.

Capital Infrastructure Investment

On December 10, 2014, BNYDC created a not for-profit company, Building 77 QALICB, Inc. (77 Inc.) to generate tax credits to help finance and rehabilitate a building in the Navy Yard, known as Building 77.

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 about fifty years of deferred 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
(A component of The city of New York)
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| <i>Current Assets</i> | | |
| Cash and Cash Equivalents (Note 4) | \$ 24,678,060 | \$ 11,223,504 |
| Reserved Cash (Note 4) | 38,049,501 | 47,437,603 |
| Accounts Receivables: Less Allowance for Doubtful | | |
| Accounts of \$436,176 in 2016 and \$321,172 in 2015 | 695,799 | 294,223 |
| Receivable from Grants and Contracts (Note 9) | 1,708,923 | 6,042,404 |
| Prepaid Expenses and other Current Assets | 1,118,873 | 1,177,469 |
| Total Current Assets | 66,251,157 | 66,175,203 |
| Cash-tenants' Security Deposits | 5,399,924 | 4,588,669 |
| Community Development Note Receivable (Note 5) | 47,797,653 | 28,025,361 |
| Property and Equipment, Net (Note 6) | 432,624,594 | 354,927,003 |
| Other Assets - Loan Fees | 1,652,748 | - |
| Total Assets | \$ 553,726,075 | \$ 453,716,236 |
| LIABILITIES | | |
| <i>Current Liabilities</i> | | |
| Accounts Payable and Accrued Expenses | \$ 17,831,158 | \$ 7,052,996 |
| Unearned Revenue (Note 7) | 6,480,490 | 16,201,177 |
| Total Current Liabilities | 24,311,648 | 23,254,173 |
| Tenants' Security Deposits | 5,399,924 | 4,588,669 |
| Unearned Revenue (Note 7) | 263,870 | 263,870 |
| Development Loans (Note 12) | 102,000,000 | 101,500,000 |
| Community Development Loan (Note 13) | 78,104,883 | 39,020,000 |
| Total Liabilities | 210,080,325 | 168,626,712 |
| Net Position (Note 2) | | |
| Invested in Capital Assets, Net of Related Debt | 306,422,265 | 261,418,750 |
| Operating | 37,223,485 | 23,670,774 |
| Total Net Position | \$ 343,645,750 | \$ 285,089,524 |

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGE IN NET POSITION
For the years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Rents | \$ 29,020,570 | \$ 28,051,112 |
| Additional Rent (Insurance Premium) | 504,441 | 494,723 |
| Utilities | 5,860,208 | 5,625,723 |
| Grants | 524,750 | 454,653 |
| Other Income | 340,623 | 642,525 |
| Total Operating Revenues | <u>36,250,591</u> | <u>35,268,736</u> |
| OPERATING EXPENSES | | |
| <i>Property Management</i> | | |
| Personnel and Fringe Benefits | 8,873,679 | 8,629,311 |
| Utilities | 6,228,281 | 6,447,556 |
| Property Insurance | 1,203,351 | 1,287,020 |
| Provision for Bad Debts | 138,699 | 1,097,966 |
| Events, Programs & Exhibits | 190,647 | 223,129 |
| Other Operating and Maintenance | 3,040,768 | 2,733,817 |
| Depreciation and Amortization | 17,531,160 | 15,909,008 |
| Total Property Management | <u>37,206,585</u> | <u>36,327,807</u> |
| <i>General and Administrative</i> | | |
| Personnel and Fringe Benefits (Schedule II) | 6,173,410 | 5,982,555 |
| Other (Schedule II) | 3,367,273 | 2,293,632 |
| Total General and Administrative | <u>9,540,683</u> | <u>8,276,187</u> |
| Total Operating Expenses | <u>46,747,268</u> | <u>44,603,994</u> |
| Operating Loss | (10,496,677) | (9,335,258) |
| NON-OPERATING REVENUE (EXPENSES) | | |
| Interest Expense | (1,838,068) | (758,043) |
| Interest and Investment Income | 488,081 | 280,430 |
| Loss before Capital Contributions and Transfers | <u>(11,846,664)</u> | <u>(9,812,871)</u> |
| <i>Capital Contributions</i> | | |
| City of New York Capital Budget (Note 9) | 55,551,969 | 12,562,716 |
| Capital Grants Note 10) | 4,597,223 | 8,430,365 |
| Tax Credit Capital Contribution after Net Loss (Note 11) | <u>10,253,698</u> | <u>1,088,673</u> |
| Change in Net Position | 58,556,226 | 12,268,883 |
| Total Net Position at Beginning of Year | <u>285,089,524</u> | <u>272,820,641</u> |
| Total Net Position at End of Year | <u>\$ 343,645,750</u> | <u>\$ 285,089,524</u> |

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from Tenants | \$ 35,849,015 | \$ 36,189,774 |
| Payments to Suppliers | (15,553,388) | (17,441,070) |
| Payments to Employees | (11,327,150) | (10,957,940) |
| Net Cash Provided by Operating Activities | <u>8,968,477</u> | <u>7,790,764</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Contributions | 65,015,684 | 24,832,241 |
| Note Receivable | (19,772,292) | (10,337,861) |
| Purchase of Capital Assets | (88,380,311) | (59,808,177) |
| Development Loan | 39,584,883 | 14,700,000 |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(3,552,036)</u> | <u>(30,613,797)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest Income | 488,081 | 280,430 |
| Interest Expense | (1,838,068) | (758,043) |
| Net Cash (Used) by Investing Activities | <u>(1,349,987)</u> | <u>(477,613)</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 4,066,454 | (23,300,646) |
| Cash and Cash Equivalent, including Reserve Cash at Beginning of Year | <u>58,661,107</u> | <u>81,961,753</u> |
| Cash and Cash Equivalent, including Reserve Cash at End of Year | <u>62,727,561</u> | <u>58,661,107</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating Loss | (10,496,677) | \$ (9,335,258) |
| Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 17,531,160 | 15,909,008 |
| Changes in Operating Assets and Liabilities: | | |
| (Decrease)/Increase in Receivable Net | (401,576) | 921,038 |
| Decrease in Prepaid Expenses and other Current Assets | 58,596 | 12,893 |
| Increase in Accounts Payable and Accrued Expenses | 2,276,974 | 283,083 |
| Net Cash Provided by Operating Activities | <u>\$ 8,968,477</u> | <u>\$ 7,790,764</u> |
| SUPPLEMENTAL DISCLOSURE | | |
| Interest Paid and Capitalized | <u>\$ 3,117,401</u> | <u>\$ 1,913,069</u> |

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1. ORGANIZATION

The predecessor-in-interest of the Brooklyn Navy Yard Development Corporation ("BNYDC"), (A component of The City of New York) 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.

SUBSIDIARY COMPANIES

On June 19, 2012 BNYDC created three for-profit companies, under the laws of the State of New York, to rehabilitate a building in the Navy Yard, known as the Building 128 Complex, ("the Building"). The Building is a certified historic structure that is eligible for investment tax credits for qualifying rehabilitation expenditures pursuant to Section 47 of the Internal Revenue Code, ("IRC").

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

GMC BK is wholly owned by BNYDC and serves as the managing member of GMC Landlord, LLC and GMC Master Tenant, LLC.

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

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1. ORGANIZATION (Continued)

(iii) GMC Master Tenant, LLC (“GMC Master Tenant”)

GMC Master Tenant holds a 39-year sublease of the property from GMC Landlord. On August 8, 2013 Brooklyn Navy Yard HTC Investor, LLC was admitted to GMC Master Tenant as a 99% member with BNYDC owning 1%.

Building 77 QALICB, Inc.

On December 10, 2014 BNYDC created a not for-profit company, Building 77 QALICB Inc. (77 Inc.), under the laws of the State of New York, to accept investments through two Community Development Entities (CDEs) in order to rehabilitate a building in the Navy Yard, known as Building 77. Those investments are eligible for tax credits pursuant to Section 45D of the Internal Revenue Code, (“IRC”).

77 Inc. holds a 55-year sublease of Building 77 from BNYDC.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BNYDC follows enterprise fund reporting; accordingly, the accompanying consolidated financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. In its accounting and financial reporting, the Corporation follows the pronouncements of the Government Accounting Standards Board (GASB).

Revenue Recognition

Revenue from rental of space and other charges are recognized on a straight-line basis over the term of the leases.

Accounts Receivables

The accounts receivables are stated at the amount management expect to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to the respective accounts receivables account.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Advertising

Advertising costs are expenses as incurred.

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting for pensions. It also improves information provided by employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Corporation is currently evaluating the impact this standard will have on its consolidated financial statements.

Upcoming Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, (“GASB No. 69”). This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB), included in the consolidated financial statements for making decisions and assessing accountability. The provisions of this Statement are effective for fiscal years beginning June 15, 2016. The corporation is currently evaluating the impact this Standard will have on BNYDC’s consolidated financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this Statement are effective for the fiscal years beginning after June 15, 2016. The corporation is currently evaluating the impact this Standard will have on BNYDC's consolidated financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB No. 76"). The objective of this Statement is to identify – in the context of the current government financial reporting environment – the hierarchy of generally accepted accounting principles ("GAAP"). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements for state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. BNYDC is currently evaluating the impact this Standard will have on its consolidated financial statements.

Revenue and Expense Classification

BNYDC distinguishes operating revenues and expenses from non-operating items in the preparation of its consolidated financial statements. Operating revenues and expenses generally result from providing the leasing management and development of Brooklyn Navy Yard Development Corporation for industrial, maritime and commercial purposes. The principal operating revenues are rents, insurance premiums, utility charges, grants, and other. BNYDC's operating expenses include property management costs, along with general and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is BNYDC's policy to use restricted resources first, and then unrestricted resources as needed.

Principles of Consolidation

The accompanying consolidated financial statements include BNYDC, GMC BK, GMC Landlord, GMC Master Tenant and Building 77 QALICB, INC. Inter-company transactions and balances have been eliminated in consolidation.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

- 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.

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, 2016, tax years ended June 30, 2015, 2014 and 2013 remained open for possible examination by the IRS.

Reclassifications

Certain reclassifications have been reflected to the prior year financial statements to conform to the current year's presentation.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 Position) as shown below:

| | | <u>2016</u> | | <u>2015</u> |
|--------------------|----|--------------------|----|--------------------|
| Nonspendable | \$ | 2,771,621 | \$ | 1,177,469 |
| Restricted | | 500,000 | | 500,000 |
| Committed | | 306,422,265 | | 261,418,750 |
| Assigned | | 23,601,916 | | 13,582,990 |
| Unassigned | | <u>10,349,948</u> | | <u>8,410,315</u> |
| Total Fund Balance | \$ | <u>343,645,750</u> | \$ | <u>285,089,524</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, 2016 and 2015 was \$934,437 and \$877,071, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents consisted of the following for the years ended June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|----------------------|----------------------|
| US Government Securities | \$ 21,440,105 | \$ 9,333,512 |
| FDIC Insured | 1,571,249 | 1,317,290 |
| Uninsured | <u>1,666,706</u> | <u>572,702</u> |
| | <u>\$ 24,678,060</u> | <u>\$ 11,223,504</u> |

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

| <u>Reserved Cash</u> | <u>2016</u> | <u>2015</u> |
|--------------------------|----------------------|----------------------|
| US Government Securities | \$ 33,912,276 | \$ 40,153,416 |
| FDIC Insured | 500,000 | 511,302 |
| Uninsured | <u>3,637,225</u> | <u>6,772,885</u> |
| | <u>\$ 38,049,501</u> | <u>\$ 47,437,603</u> |

Cash reserved for construction and building improvements at June 30, 2016 and 2015 was \$37,549,501 and \$46,937,603, 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”) with 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
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5. COMMUNITY DEVELOPMENT NOTE RECEIVABLE (*Continued*)

On December 22, 2014, BNYDC entered into a loan, maturing on January 1, 2042, in the amount of \$10,337,861, (“the Loan”) with BNY Building 77 NMTC Investment Fund, LLC initially to assist in financing two different Community Development Entities, (“CDEs”). The loan agreement provides for interest at a rate of 1.288% per annum. Repayment is interest only payable quarterly on any outstanding balances until January 1, 2022, and thereafter payment of principal and interest until maturity date.

On May 26, 2016, BNYDC entered into a loan, maturing on January 1, 2041, in the amount of \$5,456,322, (“the Loan”) with BNY Building 77 Eastern Tower NMTC Investment Fund, LLC to assist in financing a Community Development Entity, (“CDE”). The loan agreement provides for interest at a rate of 1% per annum. Repayment is interest only payable quarterly on any outstanding balances until January 10, 2022, and thereafter payment of principal and interest until maturity date.

On May 26, 2016, BNYDC entered into a loan, maturing on January 1, 2044, in the amount of \$14,315,970, (“the Loan”) with BNY Building 77 WICME NMTC Investment Fund, LLC to assist in financing a Community Development Entity, (“CDE”). The loan agreement provides for interest at a rate of 1% per annum. Repayment is interest only payable quarterly on any outstanding balances until January 10, 2022, and thereafter payment of principal and interest until maturity date.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 6. PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following for the years ended June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Machinery and Vehicles | \$ 1,909,782 | \$ 1,882,282 |
| Office Equipment | 1,633,653 | 1,583,938 |
| Leasehold Improvements, Buildings, Water and Sewer | <u>587,199,845</u> | <u>490,671,838</u> |
| Total | 590,743,280 | 494,138,058 |
| Less: Accumulated Depreciation | <u>(158,118,686)</u> | <u>(139,211,055)</u> |
| | <u>\$ 432,624,594</u> | <u>\$ 354,927,003</u> |

Depreciation Expense for 2016 and 2015 amounted to \$17,531,160 and \$15,909,008, respectively.

NOTE 7. UNEARNED REVENUE

At June 30, 2016, Unearned Revenue relates to:

| | <u>Current</u> | <u>Noncurrent</u> |
|--|---------------------|-------------------|
| Contract with The City of New York for the Rehabilitation of Capital Assets | \$ 4,774,923 | \$ - |
| WeWork/Boston Properties, LLC | 1,095,000 | - |
| Jack Bash Construction | 464,327 | - |
| Forty-five (45) year Lease Agreement with Cogeneration Partners | 11,112 | 263,870 |
| Other | <u>135,128</u> | <u>-</u> |
| Total | <u>\$ 6,480,490</u> | <u>\$ 263,870</u> |

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7. UNEARNED REVENUE (Continued)

At June 30, 2015, Unearned Revenue relates to:

| | <u>Current</u> | <u>Noncurrent</u> |
|--|----------------------|-------------------|
| Contract with The City of New York for the Rehabilitation of Capital Assets | \$ 15,095,065 | \$ - |
| WeWork Companies, LLC | 1,095,000 | - |
| Forty-five (45) year Lease Agreement with Cogeneration Partners | <u>11,112</u> | <u>263,870</u> |
| Total | <u>\$ 16,201,177</u> | <u>\$ 263,870</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 2016, provides that if BNYDC maintains a balance of \$5,000,000 in its Reserve Fund, then the Base Rent under the Lease for FY 2016 is zero. As discussed in Note 4 above, the cash balance as of June 30, 2016 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 2016 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, 2016 and 2015, BNYDC recognized \$55,551,969 and \$12,562,716, respectively, as capital contributions for rehabilitation work completed. Furthermore, the receivable from The City of New York for the rehabilitation work at June 30, 2016 and 2015 was \$1,708,923 and \$6,042,404, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10. CAPITAL GRANTS

US Department of Homeland Security, Federal Emergency Management Agency

On October 29, 2012 Super-storm Sandy caused flooding at the Navy Yard. This unusual and infrequent disaster resulted in damages to the Navy Yard.

The US Department of Homeland Security, Federal Emergency Management Agency (FEMA) has awarded BNYDC capital funds to rehabilitate the Navy Yard. The funds are administered by the City of New York. FEMA will reimburse BNYDC for expenditures incurred in the rehabilitation program up to a maximum amount of \$70,000,000 over the next few years.

During the year ended June 30, 2016, BNYDC was reimbursed and recognized \$920,089 as capital contributions.

Other Capital Grants

During the year ended June 30, 2016, BNYDC received capital funds of \$4,597,223 from Empire State Development Corporation and other grantors to facilitate improvements to the Navy Yard.

NOTE 11. RELATED PARTY - TAX CREDIT PROJECTS

Nature of Operations

Under a master agreement established on September 6, 2012, BNYDC leased the Building located in the Navy Yard to an affiliate, GMC Landlord. GMC Landlord will rehabilitate the property and lease the commercial space to GMC Master Tenant. BNYDC has a leasehold on the property. The Building is a certified historic structure. The cost to rehabilitate the building will provide eligible tax credits to investors.

Fees

BNYDC is set to earn a developer fee of \$2,500,000 to oversee the rehabilitation of the building. This fee is to be paid upon satisfaction of certain conditions provided, however, that the total shall be due and payable no later than the tenth anniversary of the completion of the Building. As of June 30, 2016 and 2015, \$2,492,195 and \$2,427,500, respectively, has been incurred, of total developer fees, of which \$568,311 and \$2,427,500, respectively, remains payable.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 11. RELATED PARTY - TAX CREDIT PROJECTS (Continued)

BNYDC is also serving as a general contractor on the Building. For this effort, BNYDC will earn \$8,000,000 for construction management fees. This fee is to be paid upon satisfaction of certain conditions provided, however, that the total shall be due and payable on the completion of the Building. As of June 30, 2016 and 2015, \$7,920,000 and \$7,768,000 respectively, was earned and paid.

Tax Credit Capital Contribution

On August 8, 2013, GMC Master Tenant's operating agreement was amended and restated to admit Brooklyn Navy Yard HTC Investor, LLC as its 99% investor member. This investor is required to make a capital contribution of \$16,477,440. For the years ended June 30, 2016 and 2015, contributions of \$12,880,732 and \$321,152, respectively, were made.

On April 2, 2015, GMC Master Tenant entered into agreements to perform tenant improvement work for its tenant, New Lab, LLC. The operating agreement was amended and restated for the investor member to make an additional capital contribution of \$3,837,595 towards the improvement work. As of June 30, 2015 an initial contribution of \$767,521 was made.

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 only 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 September 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 collateral for this loan is the

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12. DEVELOPMENT LOANS (*Continued*)

assignment of future rents, subordinate to the first credit agreement with the New York City Regional Center. As of June 30, 2016, the total amount borrowed was \$42,000,000. On August 10, 2015, the final \$500,000 was received. Thus the maturity date is August 15, 2020 which may be extended at BNYDC's option for an additional five years at a rate not to exceed 6%.

- iii. On July 15, 2015, BNYDC entered into a third credit agreement with New York City Regional Center to borrow \$30,000,000 to finance improvements to a building in the Navy Yard. The agreement provides for interest at a fixed rate of 4.20% 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 first advance of the loan, which may be extended at BNYDC's option for an additional five years at 4.20% per annum. The collateral for this loan is 77 Inc.'s contributions to BNYDC and the furniture, fixtures and equipment. As of June 30, 2016, no funds were drawn down.

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.

On December 22, 2014, 77 Inc. entered into four loan agreements, maturing on October 1, 2049, in the aggregate amount of \$14,700,000 with two Community Development Entities to finance the rehabilitation of Building 77. The agreements provide for interest at the rate of 1% per annum. Repayment is interest only, payable quarterly, on any outstanding balances until January 5, 2022, and thereafter payments of principal and interest until the maturity date.

On May 26, 2016, 77 Inc. entered into four loan agreements, maturing on October 1, 2049, in the aggregate amount of \$27,170,000 with two Community Development Entities to finance the rehabilitation of Building 77. The agreements provide for interest at the rate of 0.885% per annum. Repayment is interest only, payable quarterly, on any outstanding balances until January 1, 2022, and thereafter payments of principal and interest until the maturity date.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 14. 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 is as follows:

| | | |
|-------------|----|----------------|
| 2017 | \$ | 26,174,321 |
| 2018 | | 24,139,024 |
| 2019 | | 22,745,887 |
| 2020 | | 20,640,754 |
| 2021 | | 18,403,162 |
| 2022 - 2026 | | 69,335,595 |
| 2027 - 2031 | | 52,434,927 |
| 2032 - 2036 | | 47,766,746 |
| 2037 - 2041 | | 48,397,168 |
| 2042 - 2046 | | 41,702,843 |
| 2047 - 2051 | | 45,925,748 |
| 2052 - 2056 | | 43,998,480 |
| 2057 - 2061 | | 40,561,386 |
| 2062 - 2066 | | 44,687,943 |
| 2067 - 2069 | | 22,521,799 |
| | | \$ 569,435,783 |
| | | \$ 569,435,783 |

NOTE 15. 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.

NOTE 16. SUBSEQUENT EVENT

In connection with the preparation of the consolidated financial statements, BNYDC evaluated subsequent events after the statement of financial position date of June 30, 2016 through September 14, 2016, which was the date the consolidated financial statements were available to be issued. BNYDC is not aware of any subsequent events that require disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SCHEDULE OF PROPERTY MANAGEMENT REVENUE AND EXPENSES
For the year ended June 30, 2016
(With comparative totals for 2015)

| | <u>NAVY YARD CENTER AT 92</u> | <u>BNYDC</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------------------------|------------------------|------------------------|-----------------------|
| REVENUE | \$ 448,080 | \$ 35,802,511 | \$ 36,250,591 | \$ 35,268,736 |
| <i>Direct Expenses</i> | | | | |
| Electricity Purchased | 71,778 | 4,449,003 | 4,520,781 | 4,392,880 |
| Steam Purchased | - | 916,609 | 916,609 | 1,320,746 |
| Water Purchased | - | 790,891 | 790,891 | 733,930 |
| Payroll and Related Fringe Benefits: | | | | |
| Protective Services | 87,688 | 2,823,993 | 2,911,681 | 2,858,996 |
| Maintenance, Utilities, and Engineering | 34,114 | 3,025,737 | 3,059,851 | 3,019,560 |
| Fringe Benefits | 112,432 | 2,789,716 | 2,902,148 | 2,750,755 |
| <i>Other Direct Expenses</i> | | | | |
| Materials, Supplies, and Building Maintenance | 75,549 | 2,854,561 | 2,930,110 | 2,711,710 |
| Events, Programs & Exhibits | 190,647 | - | 190,647 | 223,129 |
| Property Insurance | 11,000 | 1,192,351 | 1,203,351 | 1,287,020 |
| Brokerage Fees | - | 110,658 | 110,658 | 22,107 |
| Bad Debt | 3,663 | 135,036 | 138,699 | 1,097,966 |
| Total Direct Expenses | <u>586,871</u> | <u>19,088,554</u> | <u>19,675,425</u> | <u>20,418,799</u> |
| Revenue from Operations | <u>(138,791)</u> | <u>16,713,957</u> | <u>16,575,166</u> | <u>14,849,937</u> |
| <i>General and Administrative Expenses</i> | | | | |
| Personnel and Fringe Benefits | 699,370 | 5,474,040 | 6,173,410 | 5,982,555 |
| Other | 305,760 | 3,061,513 | 3,367,273 | 2,293,632 |
| Total General and Administrative Expenses | <u>1,005,130</u> | <u>8,535,553</u> | <u>9,540,683</u> | <u>8,276,187</u> |
| Excess of Revenue Before Other Income and Expense | <u>(1,143,921)</u> | <u>8,178,404</u> | <u>7,034,483</u> | <u>6,573,750</u> |
| OTHER INCOME AND (EXPENSES) | | | | |
| Interest Income | - | 488,081 | 488,081 | 280,430 |
| Interest Expense | - | (1,838,068) | (1,838,068) | (758,043) |
| Depreciation and Amortization | - | (17,531,160) | (17,531,160) | (15,909,008) |
| Total other Income and (Expenses) | <u>-</u> | <u>(18,881,147)</u> | <u>(18,881,147)</u> | <u>(16,386,621)</u> |
| Deficiency of Revenue Over Expenses and Loss Before Capital Contributions and Transfers | <u>\$ (1,143,921)</u> | <u>\$ (10,702,743)</u> | <u>\$ (11,846,664)</u> | <u>\$ (9,812,871)</u> |

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
For the years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| PERSONNEL AND FRINGE BENEFIT EXPENSES | | |
| Executive and Legal | \$ 1,356,658 | \$ 1,261,440 |
| Finance and Leasing | 1,148,643 | 1,131,202 |
| Human Resource | 299,330 | 261,934 |
| Development and External Affairs | 734,004 | 804,201 |
| Technology and Information | 203,356 | 198,766 |
| Building 92 and Employment Center | 498,405 | 562,087 |
| Payroll Taxes and Fringe Benefits | <u>2,101,555</u> | <u>1,974,365</u> |
| Total | 6,341,950 | 6,193,995 |
| Less Payroll and Related Costs Capitalized | <u>(168,540)</u> | <u>(211,440)</u> |
| Total Personnel and Fringe Benefit Expenses | <u>6,173,410</u> | <u>5,982,555</u> |
| OTHER EXPENSES | | |
| Legal | 430,257 | 534,069 |
| Accounting and Auditing | 43,900 | 38,450 |
| Computer Supplies/Contract | 603,386 | 458,713 |
| Postage | 15,393 | 19,057 |
| Telephone and Communication | 126,546 | 102,320 |
| Director's Liability Insurance | 10,000 | 10,000 |
| Corporate | 117,220 | 90,939 |
| Board | 21,731 | 1,848 |
| Community Employment | 325,580 | 229,078 |
| Advertising and Marketing | 354,914 | 206,129 |
| Stationery and Office Supplies | 85,708 | 74,138 |
| Consultants | 602,935 | 185,902 |
| Gasoline | 60,996 | 78,372 |
| Vehicle Repairs and Maintenance | 272,549 | 158,399 |
| Payroll Processing | 38,054 | 28,760 |
| Education and Training | 79,290 | 38,348 |
| Miscellaneous | <u>237,390</u> | <u>120,084</u> |
| Total | 3,425,848 | 2,374,606 |
| Less: other Expenses Capitalized | <u>(58,575)</u> | <u>(80,974)</u> |
| Total Other Expenses | <u>3,367,273</u> | <u>2,293,632</u> |
| Total General and Administrative Expenses | <u><u>\$ 9,540,683</u></u> | <u><u>\$ 8,276,187</u></u> |

GOVERNMENT REPORT SECTION

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

| Federal Grantor | Federal CFDA Number | Pass-through Grantor's Number | Grant Period Beginning/ Ending Dates | Program or Awards Amount | Total Expenditures |
|---|------------------------------------|--|---|---|-------------------------------|
| <u>Program Title</u> | | | | | |
| <u>U.S. Department of Homeland Security:</u> | | | | | |
| Passed through New York State Office of Emergency Management | | | | | |
| Disaster Grant - Public Assistance | 97.036 | PA-02-NY-4085 | 10/2012 - 12/2016 | \$ <u>920,090</u> | \$ <u>920,090</u> |

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

NOTE 1. OVERVIEW OF SCHEDULE

The Accompanying Schedules of Expenditures of Federal Awards present the activities of all federal assistance program of the Brooklyn Navy Yard Development Corporation, (“BNYDC”). The reporting entity is defined in Note 1 of Notes to the Financial Statements. All federal assistance received as federal assistance passed through other government agencies is included in the accompanying schedule of expenditures of federal awards.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting which is described in Note 1 of Notes to the Financial Statements.

NOTE 3. DE MINIMIS COST RATE FOR FISCAL YEAR

The Brooklyn Navy Yard Development Corporation did not use the 10% de minimis cost rate for the fiscal year ended June 30, 2016.

**INDEPENDENT AUDITOR'S 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"**

To the Board of Directors of
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"), (a component of The City of New York), which comprise the statement of financial position as of June 30, 2016, and the related statements of revenue, expenses and changes in net position and cash flows, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 14, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Brooklyn Navy Yard Development Corporation, 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.



Valley Stream, New York
September 14, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Brooklyn Navy Development Corporation's, ("BNYDC"), (A component of The City of New York), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of BNYDC's major federal program for the year ended June 30, 2016. BNYDC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of BNYDC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BNYDC's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of BNYDC's compliance.

Opinion on Each Major Federal program

In our opinion, BNYDC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of BNYDC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered BNYDC's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BNYDC's internal control over compliance.

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

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

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



Valley Stream, New York
September 14, 2016

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over major programs:
 Material weakness(es) identified? Yes No
 Significant deficiency(ies) identified that are
 Not considered to be material weaknesses? Yes None Reported

Non-compliance material to financial statements noted Yes No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes No
 Reportable condition(s) identified that are
 Not considered to be material weaknesses? Yes No

Type of auditor's report issued on compliance
 for major programs: *Unmodified*

Any audit findings disclosed that are required
 to be reported in accordance with
 OMB Uniform Guidance Section
 200.5/6(a) Yes No

Identification of major programs:

| | |
|---------------------------|--|
| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------------|--|

97.036

Disaster Grant – Public Assistance

Dollar threshold used to distinguish
 between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee Yes No

BROOKLYN NAVY YRAD DEVELOPMENT CORPORATION
(A component of The City of New York)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016

CURRENT YEAR FINDINGS

None reported

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2016

PRIOR YEAR FINDINGS

None reported