

**BROOKLYN NAVY YARD DEVELOPMENT
CORPORATION
(A component of The City of New York)
CONSOLIDATED FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION
AND SINGLE AUDIT
WITH INDEPENDENT AUDITOR'S REPORT
For The Years Ended June 30, 2018 And 2017**

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
CONSOLIDATED FINANCIAL STATEMENTS

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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 and for the years ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise of BNYDC's basic consolidated financial statements as listed 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brooklyn Navy Yard Development Corporation as of June 30, 2018 and 2017, and the consolidated changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Generally accepted accounting principles United States of America require that management's discussion and analysis, 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 schedule of property management revenue and expenses and schedules of general and administrative expenses for the years ended June 30, 2018 and 2017 collectively are presented for purpose of additional analysis and are not required as part of the basic financial statements.

The schedules are the responsibility of management and were 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 of America. In our opinion, schedule of property management revenue and expenses and schedules of general and administrative expenses for the years ended June 30, 2018 and 2017 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal award, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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, 2018 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, 2018

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

This section of 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 years that ended on June 30, 2018 and 2017. It should be read in conjunction with BNYDC's consolidated financial statements and accompanying notes.

The consolidated financial statements consist of two parts: management's discussion and analysis (this section) and the consolidated financial statements. The basic consolidated financial statements, which include the consolidated statements of net position, the consolidated statements of revenues, expenses and changes in net position, the consolidated statements of cash flows and the notes to the consolidated financial statements, are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB"). The consolidated financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, in which revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred.

Organization Overview

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 Brooklyn Navy Yard's buildings, roadways, utility distribution systems, fire hydrants, water and sewage, sanitation, snow removal, and street security.

FINANCIAL HIGHLIGHTS

Current and Noncurrent Assets

As of June 30, 2018, BNYDC had current assets of \$15,609,588 consisting of cash and cash equivalents of \$7,267,622, accounts receivable of \$1,753,762, grants receivable of \$4,954,959 and prepaid expenses and other current assets of \$1,633,245.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

FINANCIAL HIGHLIGHTS *(Continued)*

<u>Current Assets</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% of Change 2018-2017</u>
Cash and Cash Equivalents \$	7,267,622	\$ 22,925,617	\$ 24,678,060	-68%
Accounts Receivable	1,753,762	1,134,172	695,799	55%
Grant Receivable	4,954,959	1,528,385	1,708,923	224%
Prepaid Expenses and Other Current Assets	<u>1,633,245</u>	<u>1,118,385</u>	<u>1,118,873</u>	46%
	<u>\$ 15,609,588</u>	<u>\$ 26,706,559</u>	<u>\$ 28,201,655</u>	-42%

The cash and cash equivalents decreased \$15.7 million or 68%, primarily the result of decrease in the accounts payable and accrued expenses and investment in capital projects. The accounts receivable increased \$0.6 million or 55% the result of long term payout agreements with a few tenants, additional renting of space and reducing the allowance for doubtful accounts. Grants receivable consist of capital funds due from The City of New York for several projects on the yard.

Noncurrent Assets

The following table summarizes BNYDC's noncurrent assets for the years ended June 30, 2018, 2017 and 2016 and the percentage changes between June 30, 2018 and 2017.

<u>Noncurrent Assets</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% of Change 2018-2017</u>
Restricted Cash and Cash Equivalents	\$ 8,868,661	\$ 30,316,580	\$ 38,049,501	-71%
Tenants' Security Deposits	7,518,551	6,285,261	5,399,924	20%
Community Development:				
Notes Receivable	50,555,886	49,993,872	49,453,214	1%
Deferred Rent Assets	5,077,414	4,402,847	-	15%
Deferred Cost	202,533	-	-	N/A
Capital Assets	<u>513,508,844</u>	<u>499,979,336</u>	<u>434,231,157</u>	3%
	<u>\$ 585,731,889</u>	<u>\$ 590,977,896</u>	<u>\$ 527,133,796</u>	-1%

As of June 30, 2018, BNYDC had noncurrent assets of \$585,731,889 consisting of restricted cash and cash equivalents of \$8,868,661, tenants' security deposits of \$7,518,551, community development notes receivable of \$50,555,886, deferred rent assets of \$5,077,414, deferred cost of \$202,533 and capital assets of \$513,508,844. Capital Assets are net of accumulated depreciation.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

FINANCIAL HIGHLIGHTS *(Continued)*

BNYDC's restricted cash and cash equivalents are comprised of the cash reserved for the construction projects. The decrease in restricted cash equivalents is due to the investment in Building 77.

The capital assets are comprised of improvements to the land and buildings, office equipment, and auto, truck and machinery. The capital assets increased \$13.5 million or 3%, resulting mainly from the capital investments made in the waterfront, the electric distribution system, buildings and equipment, offset by the current year's depreciation and amortization.

Current and Noncurrent Liabilities

The following table summarizes BNYDC's current and noncurrent liabilities for the years ended June 30, 2018, 2017 and 2016 and the percentage changes between June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% of Change</u> <u>2018-2017</u>
<u>Current Liabilities</u>				
Accounts Payable and Accrued Expenses	\$ 6,849,044	\$ 14,717,500	\$ 17,831,158	-53%
Unearned Revenue	<u>6,651,423</u>	<u>5,062,809</u>	<u>6,480,490</u>	31%
Total Current Liabilities	13,500,467	19,780,309	24,311,648	-32%
<u>Non-Current Liabilities</u>				
Tenants' Security Deposits	7,518,551	6,285,261	5,399,924	20%
Unearned Revenue	263,870	263,870	263,870	0%
Development Loans Payable, Net	132,787,050	132,612,004	102,000,000	0%
Community Development Notes Payable	64,023,654	63,364,201	64,567,252	1%
Construction Loan Payable	<u>8,501,339</u>	<u>12,515,144</u>	<u>11,884,883</u>	-32%
Total Non-Current Liabilities	<u>213,094,464</u>	<u>215,040,480</u>	<u>184,115,929</u>	-1%
Total Liabilities	<u>\$ 226,594,931</u>	<u>\$ 234,820,789</u>	<u>\$ 208,427,577</u>	-4

Current liabilities of \$13,500,467 were recorded as of June 30, 2018, a decrease of \$6.3 million or 32%, the result of a decrease in the accounts payable and accrued expenses, offset by an increase in unearned revenue. Noncurrent liabilities of \$213,094,464 were recorded as of June 30, 2018, a decrease of \$1.9 million or 1%, the result of \$4.0 million decrease in the construction loan from New Lab for the GMC Building Project. This is offset by the increase in tenants' security deposits and community notes payable.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

FINANCIAL HIGHLIGHTS *(Continued)*

Statement of Revenue and Expense Analysis

The following table summarizes BNYDC's change in net position for the fiscal years ended June 30, 2018, 2017 and 2016 and the percentage changes between fiscal years 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>% of Change</u> <u>2018-2017</u>
Rent Revenue	\$ 42,502,554	\$ 31,370,653	\$ 29,020,570	35%
Total Operating Revenues	51,189,316	39,122,920	36,350,591	31%
Utilities' Expenses	7,272,255	5,738,889	5,860,208	27%
Total Operating Expenses	66,834,599	49,771,252	46,747,268	34%
Operating Loss	(15,645,283)	(10,648,332)	(10,496,677)	47%
Change in Net Position	\$ (8,117,120)	\$ 35,955,792	\$ 59,198,308	-123%

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 funds 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 its 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 2018. BNYDC realized an increase in rent revenues of 35% mainly as a result of higher base payments due to lease renewals and tenant turnover, along with new rentable space being leased in Building 77. During the fiscal year 2018, the total operating revenues increased \$12.0 million or 31% primarily due to the \$11.1 million increase in rent revenue and \$0.9 million increase in utilities income.

Expenses

Total operating expenses increased by \$17.1 million or 34%, due mainly to increases in depreciation, personnel and fringe benefits, utilities, insurance, general and administrative expenses.

Operating Loss

There was a total operating loss of \$15,645,283 and \$10,648,332 for the years ended June 30, 2018 and 2017, respectively. The operating loss increased by 47%. A significant portion of BNYDC's losses were comprised of \$28.3 million of depreciation. During the last few years there were several new capital projects, generating additional depreciation.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

FINANCIAL HIGHLIGHTS *(Continued)*

Net Position

Net position as of June 30, 2018 was \$374,746,546; \$367,430,829 was invested in capital assets and notes receivable, \$1,633,245 was non-spendable (pre-paid expenses and other current assets), \$500,000 was restricted reserved for The City of New York; \$1,453,368 was assigned for construction projects, and \$3,729,104 was unassigned (un-restricted).

During fiscal year 2018, the change in total net position was a decrease of \$8.1 million. This decrease in total net position is a direct result of the decrease in The City of New York and BNYDC's capital investments in the Navy Yard.

BNYDC Financial Management

This financial report is designed to provide our customers, clients and the public with a general overview of BNYDC's finances. Questions concerning any of the information in this report or questions for additional financial information should be directed to the Brooklyn Navy Yard Development Corporation, 63 Flushing Avenue, Unit 300, Brooklyn, NY 11205.

FINANCIAL STATEMENTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A Component of The City of New York)
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
<i>Current assets</i>		
Cash and cash equivalents (Note 3)	\$ 7,267,622	\$ 22,925,617
Accounts receivables, net of allowance for doubtful accounts of \$844,660 in 2018 and \$774,781 in 2017	1,753,762	1,134,172
Grant receivable	4,954,959	1,528,385
Prepaid expenses and other current assets	<u>1,633,245</u>	<u>1,118,385</u>
Total current assets	15,609,588	26,706,559
<i>Non-current assets</i>		
Restricted Cash and cash equivalents (Note 3)	8,868,661	30,316,580
Tenants' security deposits	7,518,551	6,285,261
Community development notes receivable (Note 4)	50,555,886	49,993,872
Deferred rent assets	5,077,414	4,402,847
Deferred cost	202,533	-
Capital assets, net (Note 5)	<u>513,508,844</u>	<u>499,979,336</u>
Total non-current assets	585,731,889	590,977,896
Total assets	\$ <u>601,341,477</u>	\$ <u>617,684,455</u>
LIABILITIES AND NET POSITION		
<i>Current liabilities</i>		
Accounts payable and accrued expenses	\$ 6,849,044	\$ 14,717,500
Unearned revenue (Note 6)	<u>6,651,423</u>	<u>5,062,809</u>
Total current liabilities	13,500,467	19,780,309
<i>Non-current liabilities</i>		
Tenants' security deposits	7,518,551	6,285,261
Unearned revenue (Note 6)	263,870	263,870
Development loans payable, net (Note 7)	132,787,050	132,612,004
Community development notes payable (Note 8)	64,023,654	63,364,201
Construction loan payable (Note 9)	<u>8,501,339</u>	<u>12,515,144</u>
Total non-current liabilities	213,094,464	215,040,480
Total liabilities	226,594,931	234,820,789
Net position		
Invested in capital assets and notes receivable, net of related liabilities	367,430,829	340,856,024
Non-spendable	1,633,245	1,118,385
Restricted	500,000	500,000
Assigned	1,453,368	19,572,267
Unassigned	<u>3,729,104</u>	<u>20,816,990</u>
Total net position	374,746,546	382,863,666
TOTAL LIABILITIES AND NET POSITION	\$ <u>601,341,477</u>	\$ <u>617,684,455</u>

See accompanying notes to consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A Component of The City of New York)
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For The Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
<i>Revenue from leases</i>		
Rents	\$ 42,502,554	\$ 31,370,653
Insurance	710,150	548,603
Utilities	6,415,956	5,494,813
Grants	547,396	348,600
Other income	1,013,260	1,360,251
	<u>51,189,316</u>	<u>39,122,920</u>
OPERATING EXPENSES		
<i>Property management</i>		
Personnel and fringe benefits	11,623,401	9,414,540
Utilities	7,272,255	5,738,889
Property insurance	1,928,170	1,241,149
Brokerage and leasing	245,942	167,702
Provision for doubtful accounts	117,684	677,997
Events, programs and exhibits	308,266	324,100
Operating and maintenance	4,026,733	2,908,090
Depreciation and amortization	28,303,322	18,739,530
	<u>53,825,773</u>	<u>39,211,997</u>
<i>General and administrative</i>		
Personnel and fringe benefits (Schedule II)	7,710,138	6,775,744
Other (Schedule II)	5,298,688	3,783,511
	<u>13,008,826</u>	<u>10,559,255</u>
Total operating expenses	<u>66,834,599</u>	<u>49,771,252</u>
Operating loss	(15,645,283)	(10,648,332)
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(6,703,147)	(3,100,562)
Interest income	1,255,460	1,229,936
	<u>(21,092,970)</u>	<u>(2,518,958)</u>
CAPITAL CONTRIBUTIONS		
Funding from the The City of New York	11,734,373	43,475,595
Capital grants (Note 10)	1,241,477	2,070,907
Tax credit investor contributions	-	2,928,248
	<u>(8,117,120)</u>	<u>35,955,792</u>
Change in net position	(8,117,120)	35,955,792
Net position, beginning of year	<u>382,863,666</u>	<u>346,907,874</u>
Net position, end of year	<u>\$ 374,746,546</u>	<u>\$ 382,863,666</u>

See accompanying notes to 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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants	\$ 48,334,504	\$ 34,526,154
Grant Received	547,396	348,600
Other Income	1,013,260	1,360,251
Payments to Suppliers	(28,956,076)	(21,961,600)
Payments to Employees	(13,745,996)	(11,199,179)
Net Cash Provided by Operating Activities	<u>7,193,088</u>	<u>3,074,226</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	11,137,890	47,237,607
Purchase of Capital Assets	(46,247,885)	(85,718,834)
(Payments)/Proceeds from development and construction Loan	(3,741,320)	29,062,056
Net Cash (Used) by Capital and Related Financing Activities	<u>(38,851,315)</u>	<u>(9,419,171)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	1,255,460	266,259
Interest Expense	(6,703,147)	(3,406,678)
Net Cash (Used) by Investing Activities	<u>(5,447,687)</u>	<u>(3,140,419)</u>
Net (Decrease) in Cash and Cash Equivalents	(37,105,914)	(9,485,364)
Cash and Cash Equivalent, including Reserve Cash at Beginning of Year	<u>53,242,197</u>	<u>62,727,561</u>
Cash and Cash Equivalent, including Reserve Cash at End of Year	<u>\$ 16,136,283</u>	<u>\$ 53,242,197</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (15,645,283)	\$ (10,648,332)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	28,303,322	18,739,530
Deferred Revenue	(674,567)	-
Changes in Operating Assets and Liabilities:		
(Increase) in Receivable Net	(619,590)	(438,373)
(Increase) in Prepaid Expenses and other Current Assets	(514,860)	(488)
(Decrease) in Accounts Payable and Accrued Expenses	(3,655,934)	(4,578,111)
Net Cash Provided by Operating Activities	<u>\$ 7,193,088</u>	<u>\$ 3,074,226</u>
SUPPLEMENTAL DISCLOSURE		
Interest Paid and Capitalized	<u>\$ -</u>	<u>\$ 3,035,318</u>

See accompanying notes to consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1. BACKGROUND AND ORGANIZATION

The Brooklyn Navy Yard Development Corporation (“BNYDC”) is a not-for-profit corporation, pursuant to the not-for-profit laws of the State of New York. The members of the Board of Directors serve at the pleasure of the Mayor of The City of New York (“The City”). As such, BNYDC is considered a component unit of The City for the purpose of The City of New York’s Comprehensive Annual Financial Report.

The mission of BNYDC is to fuel The City’s economic vitality by creating and preserving quality jobs, growing The City’s modern industrial sector and its businesses, and connecting the local community with the economic opportunity and resources of the Brooklyn Navy Yard (the “Navy Yard”). It serves as a real estate developer and property manager of the Navy Yard on behalf of The City and strives to provide an environment in which businesses and careers can take root and grow.

Lease and Management Contract with The City

BNYDC’s predecessor-in-interest was organized in 1966. In 1971, it leased the Navy Yard from The City for the purpose of rehabilitating it and attracting new businesses and industry to the area (the “Lease”).

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, or (ii) in such other amount as may be agreed to in writing by the parties with respect to a specific Lease Year (capitalized terms as defined in the Lease). Under existing lease agreement between The City and BNYDC, the lease has a term of 49 years commencing July 1, 2012, with five 10-year extension periods.

The City and BNYDC also entered into annual management contracts whereby, among other provisions, The City funds the improvement, replacement and rehabilitation of the infrastructure in the Navy Yard. In prior years, BNYDC advanced the funds for capital expenditures, resulting in a grant receivable from The City, which amounted to \$4,954,959 and \$1,528,385 at June 30, 2018 and 2017, respectively. BNYDC continues to operate under the terms of the management contract for FY 2018 which provides that, if BNYDC maintains a balance of \$5,000,000 in its reserve funds (The City Reserve Fund), then the Annual Base Rent under the Lease for FY 2018 is zero. The City subsequently approved the reduction in The City Reserve Fund to \$500,000 and allowed the Annual Base Rent to remain at zero.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1. BACKGROUND AND ORGANIZATION *(Continued)*

Subsidiary Companies

On June 19, 2012, BNYDC created the following 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, (the Code).

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.

GMC Landlord, LLC (GMC Landlord) - GMC Landlord holds a 55-year sublease of the Building from BNYDC. GMC Landlord is owned 90% by GMC BK, and 10% by GMC Master Tenant.

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 (BNY HTC) was admitted to GMC Master Tenant as a 99% member with BNYDC owning 1%.

On November 3, 2016, BNYDC created the following for-profit companies under the laws of the State of New York for the purposes of subleasing to those companies certain BNYDC leases with commercial tenants: BNY 10 LLC (BNY10), BNY 121/Gatehouse LLC (BNY21/Gatehouse), BNY 25/268 LLC (BNY 25/268), BNY 500 LLC (BNY 500), and BNY Waterfront LLC (BNY Waterfront). On December 22, 2016, BNY 10, BNY 121/Gatehouse, BNY 25/268, and BNY 500 entered into a \$30,750,000 loan agreement with Sterling National Bank and BNY Waterfront entered into a \$31,680,000 loan agreement with Symetra Life Insurance Company. The companies' respective interests in the sub-lessees with BNYDC collateralize, among other security instruments, the loan agreements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

BNYDC's consolidated financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis, revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred. In its accounting and financial reporting, the BNYDC follows the pronouncements of the Government Accounting Standards Board ("GASB").

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

As a component unit of The City, BNYDC implements new GASB standards in the same fiscal year as they are implemented by The City. The impact of the standards that became effective during the year ended June 30, 2018 and those that may impact BNYDC's financial reporting in future fiscal years follow.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement addresses accounting and financial reporting for OPEB that is provided to employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, the Statement identifies the methods and assumptions that are required to be used to protect benefit payments, discount projected benefit payment to their actuarial present value and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB, including those that are administered to certain trusts, are addressed. The requirements of GASB 75 are effective for reporting periods beginning after June 15, 2017. BNYDC adopted this statement during the fiscal year ended June 30, 2018.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83"). GASB 83 establishes uniform guidance for governments in recognizing and measuring certain Asset Retirement Obligations ("ARO"). An ARO is defined as a legally enforceable liability associated with the retirement of a capital asset. ARO's should be recognized when the liability is incurred and reasonably estimable. The measurement is to be based on the

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

best estimate of the current value of the outlays expected to be incurred. A deferred outflow of resources when an ARO is recognized at the initial measurement value. After initial measurement, you are required to adjust the current value of ARO's for the effects of inflation or deflation annually. GASB 83 is effective for reporting periods beginning after June 15, 2018. BNYDC plans to adopt the provisions of GASB 83 on July 1, 2018 and will continue to evaluate the impact of this guidance until it becomes effective.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, ("GASB 85"). GASB 85 establishes uniform guidance in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits. GASB 85 is effective for reporting periods beginning after June 15, 2017. BNYDC adopted this statement during the fiscal year ended June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, ("GASB 86"). Under GASB 86, when a government places cash and other monetary assets acquired only with existing resources with an escrow agent in a trust that meets the criteria prescribed in the Statement, the debt should no longer be reported as a liability in the financial statements using the economic resources and measurement focus. Any difference between the reacquisition price and the net carrying amount of the debt, together with any deferred outflows of resources or deferred inflows of resources from prior refunding, should be recognized as a separately identified gain or loss in the period of in-substance defeasance. GASB 86 is effective for reporting periods beginning after June 17, 2017, with earlier application encouraged. BNYDC adopted this statement during the fiscal year ended June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*, (GASB 87). The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases, and recognize them as inflows of resources or outflows of resources based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about government's leasing activities. The requirements of GASB 87 are effective for reporting periods beginning after December 15, 2019, with earlier application encouraged. BNYDC is in the process of evaluating the impact this statement will have on its consolidated financial statements.

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of BNYDC and its subsidiary companies. Intercompany transactions and balances have been eliminated in consolidation.

Revenue and Expense Classification

BNYDC distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from its real estate and related activities. The principal operating revenues consist of rents, lease-related charges for insurance and utilities and grants and contributions received and available for operating activities. BNYDC's operating expenses include property management and 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.

Revenue Recognition

Rent, insurance and utilities

Rent, insurance and utilities are recognized as revenue over the lease term as they become receivable according to the provisions of the lease. Generally, the lease agreements are structured with rent increases over their term to cover anticipated increases in costs due to economic, regulatory and other factors. Where the lease includes lease incentives such as free or reduced rent for certain periods of time during the lease term, rent is recognized as revenue on a straight-line basis over term the term of the lease.

Grants and contributions

Grants and contributions are recorded when received at their fair value. Contributions received without donor-imposed restrictions are reported under operating revenues.

Capital contributions from investors are recorded as non-operating revenue in the period received. City contributions for Navy Yard capital infrastructure replacement and rehabilitation, and grants received for restricted purposes, such as improvements and rehabilitation of Navy Yard facilities, are deferred and recognized as non-operating revenue when the related expenditures are incurred.

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

Fair Value Measurements

BNYDC categorizes its fair value measurement within the fair value hierarchy established under GAAP. The hierarchy is based on valuation inputs used to measure fair value of assets and liabilities as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level II inputs are significant other observable inputs, either directly or indirectly, for the asset or liability.
- 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks, money market funds, money market deposit accounts and highly liquid debt instruments with maturities of three months or less from date of acquisition.

Accounts Receivables

The accounts receivables are stated at the amount management expect to collect from outstanding balances. Management provides for uncollectible amounts through a provision for doubtful accounts based on its assessment of the collectability 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.

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

Capital Assets

Capitalization and Depreciation

Machinery, office equipment, leasehold improvements/buildings, tenant improvements 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
Leasehold Improvements/Buildings	21-50
Tenant Improvements	Life of Lease
Water/Sewer Systems	21-75

Capitalized Interest Costs

Net interest costs on funds borrowed to finance the acquisition, construction or improvement of capital assets, during the period of acquisition, construction or improvement, are capitalized and depreciated over the life of the related assets once placed in service.

Pension Expense

BNYDC has non-contributory defined contribution pension plans for its non-union administrative employees and its security guards. The pension expense for the years ended June 30, 2018 and 2017 was \$769,490 and \$921,634, respectively.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

BNYDC is exempt from federal income tax under Section 501 (c) (3) of the 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) of the Code and has been classified as an organization other than a private foundation.

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

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, 2018, returns for the years ended June 30, 2017 and 2016 remained open for possible examination by the IRS.

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NOTE 3. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash		
Insured	\$ 1,283,010	\$ 1,359,095
Uninsured	344,050	12,424,506
Cash Equivalents (U.S. Government Money Market Fund)	<u>5,640,562</u>	<u>9,142,016</u>
	<u>\$ 7,267,622</u>	<u>\$ 22,925,617</u>
Non-current Assets		
Restricted cash		
Insured	\$ 360,398	\$ 500,000
Uninsured	1,075,625	20,859,600
Cash Equivalents (U.S. Government Money Market Fund)	<u>6,932,639</u>	<u>8,456,980</u>
	8,368,662	29,816,580
The City Fund Reserve		
Restricted Cash - Insured	<u>500,000</u>	<u>500,000</u>
	<u>\$ 8,868,662</u>	<u>\$ 30,316,580</u>
Total Cash and Cash Equivalents		
Cash		
Insured	2,143,408	2,359,095
Uninsured	1,419,675	33,284,106
Cash Equivalents (U.S. Government Money Market Fund)	<u>12,573,201</u>	<u>17,598,996</u>
	<u>\$ 16,136,284</u>	<u>\$ 53,242,197</u>

BNYDC entered into a custodial agreement (the “Agreement”) with JP Morgan Chase Bank, N.A. (the “Bank”), in which the Bank will hold eligible securities consisting of U.S. Treasury Notes, pledged by the Bank as collateral for the benefit of BNYDC, pursuant to the Agreement for any uninsured deposits of BNYDC.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 4. COMMUNITY DEVELOPMENT NOTES RECEIVABLE

Community development notes receivable at June 30, 2018 and 2017 consisted of promissory notes for loans extended to the following entities:

<u>Borrower</u>	<u>2018</u>	<u>2017</u>
Building 128 NMTC Investment Fund LLC ("128 NMTC")	\$ 20,445,733	\$ 19,883,719
BNY Building 77 NMTC Investment Fund LLC ("77 NMTC")	10,337,861	10,337,861
BNY Building 77 Eastern Tower NMTC Investment Fund LLC ("77 Eastern")	5,456,322	5,456,322
BNY Building 77 WICME NMTC Investment Fund LLC ("77 WICME")	<u>14,315,970</u>	<u>14,315,970</u>
	<u>\$ 50,555,886</u>	<u>\$ 49,993,872</u>

128 NMTC

On September 6, 2012, BNYDC extended a loan to 128 NMTC in the original amount of \$17,687,500 to assist in the financing of three community development entities ("CDEs") that provided funding for the rehabilitation of 215,000 square feet of commercial space at Buildings 28, 123 and 128 (the "Buildings") (see Note 8). The loan bears interest at the rate of 3.950% a year (the "Initial Rate") on the principal balance until December 31, 2019 (the "Adjustment Date"), and thereafter at the rate of 1.263% a year (the "Loan Payment Interest Rate").

From September 6, 2012 to December 31, 2019 (the "Accrual Period"), interest on the original principal balance (i.e., \$17,687,500) shall be payable at the Loan Payment Interest Rate. During the Accrual Period, an amount equal to the difference between the interest on the outstanding principal balance computed at the Initial Rate and interest on the original principal balance computed at the Loan Payment Interest Rate ("Capitalized Interest") shall accrue and be added to the outstanding principal balance as of January 1 of the year following the year in which such interest accrued. During the Accrual Period, interest only on the principal balance shall be payable for each calendar year annually on November 15, with interest calculated partially in arrears and partially in advance for said calendar year. Any unpaid and accrued interest on the loan shall be added to the principal.

Interest income on the loan during fiscal year 2018 and fiscal year 2017, which are included in interest and investment income, amounted to \$796,507 and \$774,729, respectively. Accrued interest receivable at June 30, 2018 and 2017, which are included in prepaid expenses and other current assets, amounted to \$403,803 and \$392,704, respectively.

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NOTE 4. COMMUNITY DEVELOPMENT NOTES RECEIVABLE *(Continued)*

128 NMTC *(Continued)*

The loan matures on November 15, 2042, (the “Maturity Date”). Following the Adjustment Date, payments of principal and interest shall be made annually on November 15 each year based on a 23-year amortization. The entire outstanding principal balance and all interest accrued and unpaid thereon shall be fully due and payable on the Maturity Date, unless sooner accelerated pursuant to the terms of the promissory note and other loan documents.

The loan is collateralized by a pledge of all of 128 NMTC’s interests in the CDEs and certain bank accounts pursuant to various security agreements executed by 128 NMTC.

77 NMTC

On December 22, 2014, BNYDC extended a loan to 77 NMTC in the amount of \$10,337,861 to fund 77 NMTC’s equity investment in certain CDEs that provided funding for the rehabilitation of Building 77. The loan bears interest at the rate of 1.288% a year. From December 22, 2014 to January 1, 2022 (the “Amortization Date”), interest only on the principal balance accrued during the respective preceding calendar quarters shall be payable on January 10, April 10, July 10 and October 10. Any unpaid and accrued interest on the loan shall be added to the principal.

Interest income on the loan amounted to \$133,151 during fiscal year 2018 and fiscal year 2017. Accrued interest receivable at June 30, 2018 and 2017, which are included in prepaid expenses and other current assets, amounted to \$33,288.

The loan matures on January 1, 2042, (the “Maturity Date”). Following the Amortization Date, payments of principal and interest shall be made quarterly on January 10, April 10, July 10 and October 10 each year based on a 240-month amortization. The entire outstanding principal balance and all interest accrued and unpaid thereon shall be fully due and payable on the Maturity Date, unless sooner accelerated pursuant to the terms of the promissory note and other loan documents.

The loan is collateralized by a pledge of all of 77 NMTC’s interests in the CDEs and certain bank accounts pursuant to various security agreements executed by 77 NMTC.

On May 26, 2016, BNYDC extended a loan to 77 Eastern in the amount of \$5,456,322 to fund certain reserves, pay for certain fees and make a one-time special return of capital to an investor who financed 77 Eastern’s equity investment in a CDE (“Eastern CDE Investment”). The Eastern CDE Investment provided the funding for the rehabilitation of certain improvements into approximately 1,000,000 square feet of office, light industrial and retail space in the Navy Yard.

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NOTE 4. COMMUNITY DEVELOPMENT NOTES RECEIVABLE *(Continued)*

77 Eastern

The loan bears interest at the rate of 1.00% a year. From May 26, 2016 to January 10, 2022, interest only on the principal balance accrued during the respective preceding calendar quarters shall be payable on January 10, April 10, July 10 and October 10. Any unpaid and accrued interest on the loan shall be added to the principal.

Interest income on the loan amounted to \$54,563 during fiscal year 2018 and fiscal year 2017. Accrued interest receivable at June 30, 2018 and 2017, which are included in prepaid expenses and other current assets, amounted to \$13,641.

The loan matures on January 1, 2041, (the “Maturity Date”). From April 10, 2022 and through the Maturity Date, payments of principal and interest shall be made quarterly in arrears on January 10, April 10, July 10 and October 10 each year based on a 228-month amortization. The entire outstanding principal balance and all interest accrued and unpaid thereon shall be fully due and payable on the Maturity Date, unless sooner accelerated pursuant to the terms of the promissory note and other loan documents.

The loan is collateralized by a pledge of all of 77 Eastern’s interests in the CDE and certain bank accounts pursuant to various security agreements executed by 77 Eastern.

77 WICME

On May 26, 2016, BNYDC extended a loan to 77 WICME in the amount of \$14,315,970 to pay a lender who financed 77 WICME’s equity investment in certain CDEs (“WICME CDE Investments”). The WICME CDE Investments provided the funding for the rehabilitation of certain improvements located in BNY into approximately 1,000,000 square feet of office, light industrial and retail space within the Navy Yard. The loan matures on January 1, 2044, (the “Maturity Date”) and bears interest at the rate of 1.00% a year. From May 26, 2016 to January 10, 2022, interest only on the principal balance accrued during the respective preceding calendar quarters shall be payable on January 10, April 10, July 10 and October 10. Any unpaid and accrued interest on the loan shall be added to the principal.

Interest income on the loan amounted to \$145,943 during fiscal year 2018 and fiscal year 2017. Accrued interest receivable at June 30, 2018 and 2017, which are included in prepaid expenses and other current assets, amounted to \$36,188.

The loan matures on January 1, 2044, (the “Maturity Date”). From April 10, 2022 and through Maturity Date, payments of principal and interest shall be made quarterly in arrears on January 10, April 10, July 10 and October 10 each year based on a 264-month amortization. The entire

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NOTE 4. COMMUNITY DEVELOPMENT NOTES RECEIVABLE *(Continued)*

77 WICME *(Continued)*

outstanding principal balance and all interest accrued and unpaid thereon shall be fully due and payable on the Maturity Date, unless sooner accelerated pursuant to the terms of the promissory note and other loan documents.

The loan is collateralized by a pledge of all of 77 WICME's interests in the CDE and certain bank accounts pursuant to various security agreements executed by 77 WICME.

The aggregate annual maturities of the notes receivable over the next five years and thereafter following June 30, 2018 are as follows:

Fiscal Year Ending				
June 30	Principal*		Interest*	Total
2019	\$ -		\$ 557,051	\$ 557,051
2020	-		557,051	557,051
2021	816,603		606,937	1,423,540
2022	1,151,305		595,530	1,746,835
2023	2,143,873		573,246	2,717,119
Thereafter	<u>47,635,608</u>		<u>5,805,985</u>	<u>53,441,593</u>
	<u>\$ 51,747,389</u>		<u>\$ 8,695,800</u>	<u>\$ 60,443,189</u>

*Includes the effect of future interest on 128 NMTC loan to be capitalized into principal.

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NOTE 5. CAPITAL ASSETS

Capital Assets at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cost		
Machinery and Vehicles	\$ 4,015,321	\$ 2,095,382
Office Equipment	1,863,598	1,646,136
Leasehold Improvements, Including Buildings, Water and Sewer Systems	<u>710,691,414</u>	<u>674,144,038</u>
Total	716,570,333	677,885,556
Less: Accumulated Depreciation	<u>(203,061,489)</u>	<u>(177,906,220)</u>
Net	<u>\$ 513,508,844</u>	<u>\$ 499,979,336</u>

Depreciation and amortization expense amounted to \$28,303,322 and \$18,739,530, respectively for the years ended June 30, 2018 and 2017.

NOTE 6. UNEARNED REVENUE

Unearned Revenue at June 30, 2018 and 2017 consisted of:

	<u>2018</u>		<u>2017</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Current with the City for the Rehabilitation of Capital Assets	\$ 4,640,805	\$ -	\$ 3,251,729	\$ -
WeWork/Boston Properties, LLC	271,752	-	1,799,968	-
Grants	99,300	-	-	-
HITN	1,500,000	-	-	-
Cogeneration Partners	-	263,870	11,112	263,870
Other	<u>139,566</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,651,423</u>	<u>\$ 263,870</u>	<u>\$ 5,062,809</u>	<u>\$ 263,870</u>

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NOTE 7. DEVELOPMENT LOANS PAYABLE

Development loans payable at June 30, 2018 and 2017 consisted of the following borrowings:

<u>Lender</u>	<u>2018</u>	<u>2017</u>
NYCTR Brooklyn Navy Yard Development Fund, LLC ("NYCRC \$42,000,000 Loan")	\$ 42,000,000	\$ 42,000,000
NYCTR Brooklyn Navy Yard Development Fund, IV, LLC ("NYCRC \$30,000,000 Loan")	30,000,000	30,000,000
Sterling National Bank ("Sterling Loan")	30,750,000	30,750,000
Symetra Life Insurance Company ("Symetra Loan")	<u>31,680,000</u>	<u>31,680,000</u>
	134,430,000	134,430,000
Less: Unamortized Loan Costs	<u>(1,642,950)</u>	<u>(1,817,996)</u>
	<u>\$ 132,787,050</u>	<u>\$ 132,612,004</u>

NYCRC \$42,000,000 Loan

On July 26, 2012, BNYDC entered into a credit agreement with the NYCRC Brooklyn Navy Yard Development Fund, LLC ("NYCRC LLC") to borrow up to \$42,000,000 to finance improvements to a building in the Navy Yard ("Building 77"). The credit agreement provides for interest at a fixed rate of 3% per annum. The loans under agreement are due on the fifth anniversary date of the last loan draw, which occurred on August 10, 2015 (the "Maturity Date"). The loan may not be prepaid, in whole or in part, prior to the Maturity Date. The Maturity Date may be extended from time to time up to an additional five years (the "Extended Term"), subject to certain terms and conditions, including an increase in interest rate up to 6% per annum and an ability to prepay the loan during the Extended Term. Payments due during the term of the loan consists of interest only, payable quarterly, on the outstanding balance until the maturity date at which time principal is payable.

Interest on the loan during fiscal year 2018 and fiscal year 2017, amounted to \$1,277,500 each and was capitalized to leasehold improvement in fiscal 2017 and expense in fiscal 2018. There was unpaid interest of \$322,000 at June 30, 2018 and none at June 30, 2017.

The loans are collateralized by an assignment of all rents, income and profits arising from all leases (except as specified in the credit agreement), subleases, tenancies or occupancy agreements or otherwise arising from the use or occupation of all the premises, as defined in the assignment of rent agreement, within the Navy Yard. Further, BNYDC has granted NYCRC LLC a first and prior security interest on, subject only to certain exclusions specified in the security agreement, in and to all of BNYDC's personal and fixture property of every kind and nature, whether currently owned or existing or subsequently acquired or arising and regardless of where located and all

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NOTE 7. DEVELOPMENT LOANS PAYABLE *(Continued)*

NYCRC \$42,000,000 Loan *(Continued)*

products, proceeds, substitutions, accessions and replacements thereof. The loans, subject to the terms of the subordination and inter-creditor agreements, are junior and subordinate to the indebtedness under the NYCRC \$30,000,000 Loans.

NYCRC \$30,000,000 Loan

On July 15, 2015, BNYDC entered into a credit agreement with the NYCRC Brooklyn Navy Yard Development Fund IV, LLC to borrow \$30,000,000 to finance improvements to Building 77 in the Navy Yard. The credit agreement provides for interest at a fixed rate of 4.20% per annum. Except as provided in the agreement, the loans are due on the fifth anniversary date of the first loan draw, which occurred on May 10, 2017 (the “Maturity Date”). The loan may not be prepaid, in whole or in part, prior to the Maturity Date. The Maturity Date may be extended from time to time up to an additional five years (the “Outside Payment Date”), subject to certain terms and conditions, including the interest rate of 4.20% per annum and an ability to prepay the loan during the period between the Maturity Date and the Outside Payment Date. Payments due during the term of the loan consists of interest only, payable quarterly, on the outstanding balance until the maturity date at which time principal is payable.

Interest expense on the loan during fiscal year 2018 and 2017 amounted to \$1,280,078 and \$181,883, respectively. In fiscal 2018, \$975,911 of interest was deferred. The fiscal 2017 interest was capitalized to leasehold improvement and included in accounts payable and accrued expenses.

The loans are collateralized by an assignment of certain deposit account with a bank, BNYDC’s interest in a contribution agreement with 77 Inc., and subject to certain subordination and inter-creditor agreements, BNYDC’s security interest in deposit accounts, current and future accounts, receivables and contract rights, personal and fixture property of every kind and nature, whether currently owned or existing or subsequently acquired or arising and regardless of where located and all products, proceeds, substitutions, accessions and replacements thereof with respect to Building 77.

Sterling Loan

On December 22, 2016, BNY 10, BNY 121/Gatehouse, BNY 25/268 and BNY 500 (collectively, the “Sterling Borrowers”) entered into a loan agreement with Sterling National Bank to finance the payment of \$30,000,000 of BNYDC’s NYCRC \$60,000,000 Loan and pay for the closing costs.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7. DEVELOPMENT LOANS PAYABLE *(Continued)*

Sterling Loan *(Continued)*

The loan bears interest at the rate of 4.448% per annum and is payable as follows:

- Interest only beginning January 15, 2017 and on the 15th of each succeeding month through December 15, 2018
- Principal and interest of \$156,041 beginning on January 15, 2019 and on the 15th of each succeeding month through December 15, 2031

The loan may be prepaid, subject to prepayment premium ranging from 5% to 1% if the prepayment occurs during the first 10 years of the loan.

Interest expense on the loan during fiscal year 2018 and 2017 amounted to \$1,386,757 and \$721,873, respectively. Accrued interest payable at June 30, 2018 and 2017 amounted to \$56,990 and is included in accounts payable and accrued expenses.

The loan is collateralized by, among other security, following: (i) grant to Sterling by the Sterling Borrowers of an ongoing security interests in various assets pursuant to security agreement between Sterling and the Sterling Borrowers; (ii) assignment to Sterling of BNYDC's membership interests in the Sterling Borrowers; (iii) assignment to Sterling of all of the Sterling Borrowers' right, title and interest in and to all leases, rents, income and profits arising from all current and future leases, subleases, tenancies, occupancy agreements and licenses with respect to certain premises pursuant to an assignment of leases and rents agreements among Sterling, the Sterling Borrowers and BNYDC; and (iv) and mortgage of such premises to Sterling.

Symetra Loan

On December 22, 2016, BNY Waterfront received a loan under a real estate note (the "Loan") in the amount of \$31,680,000 to refinance \$30,000,000 of the NYCRC \$60,000,000 Loan and pay for the loan costs. The loan bears interest at 4.15% per annum and is payable as follows:

- At closing, interest from the date of loan through January 15, 2017
- Monthly interest only payments of \$109,560 beginning February 15, 2017 and on the 15th of each succeeding month through July 15, 2018
- 239 monthly payments of principal and interest of \$194,488 beginning on August 15, 2018 and on the 15th of each succeeding month through July 15, 2038

The loan may be prepaid in full (but not in part), subject to prepayment premium calculated at the greater of (a) 1% of the principal prepaid or (b) the excess over the prepaid principal amount of the present value of the remaining principal and interest payments calculated using a discount rate as defined in the Loan.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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June 30, 2018 and 2017

NOTE 7. DEVELOPMENT LOANS PAYABLE *(Continued)*

Symetra Loan *(Continued)*

Interest expense on the loan during fiscal year 2018 and 2017 amounted to \$1,314,720 and \$688,929, respectively. Accrued interest payable at June 30, 2018 and 2017 amounted to \$54,780 and is included in accounts payable and accrued expenses.

The loan is collateralized by a security instrument executed by BNY Waterfront and BNYDC, collectively, as mortgagor, in favor of Symetra, irrevocably mortgaging to Symetra the mortgagor's ongoing interest under a certain lease dated December 22, 2016 between BNYDC (as ground lessor) and BNY Waterfront with respect to certain premises described in the security agreement. Further, subject to the provisions of a subordination and intercreditor agreement dated December 22, 2016 among Symetra (as senior lender), NYCRC LLC (as subordinate lender), BNY Waterfront and BNYDC, NYCRC LLC subordinates its NYCRC \$42,000,000 Loan and underlying loan documents to the Symetra Loan and underlying security documents.

The aggregate annual principal and interest due on the development loans payable over the next five years and thereafter following June 30, 2018, assuming no extensions of maturity dates with respect to the NYCRC \$42,000,000 Loan and the NYCRC \$30,000,000 loan, are as follows:

Fiscal Year Ending					
<u>June 30</u>		<u>Principal</u>		<u>Interest</u>	
				<u>Total</u>	
2019	\$	1,205,242	\$	5,218,807	\$ 6,424,049
2020		1,605,656		5,162,683	6,768,339
2021		43,675,206		3,952,133	47,627,339
2022		31,747,772		3,557,567	35,305,339
2023		1,823,489		2,382,855	4,206,344
Thereafter		<u>54,372,635</u>		<u>18,633,652</u>	<u>73,006,287</u>
	\$	<u>134,430,000</u>	\$	<u>38,907,697</u>	<u>\$ 173,337,697</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 8. COMMUNITY DEVELOPMENT NOTES PAYABLE

Community development loans payable at June 30, 2018 and 2017 consisted of promissory notes issued by the GMC Landlord and 77 Inc., two of BNYDC's entities, to the following community development entities ("CDE Lenders"):

<u>BNYDC Entity/CDE Lender</u>	<u>2018</u>	<u>2017</u>
GMC Landlord promissory notes dated September 6, 2012 ("GMC Notes"):		
<i>ESNMC Subsidiary CDE II, LLC ("ESNMC")</i>		
ESNMC Loan A	\$ 8,490,000	\$ 8,490,000
ESNMC Loan B	3,150,000	3,150,000
<i>Empowerment Reinstatement Fund XXI, LLC ("ERF")</i>		
ERF Loan A	5,660,000	5,660,000
ERF Loan B	2,020,000	2,020,000
<i>GSNMF SUB-CDE-4LLC (GSNMF-4")</i>		
GSNMF-4 Loan A	3,537,500	3,537,500
GSNMF-4 Loan B	1,462,500	1,462,500
	<u>24,320,000</u>	<u>24,320,000</u>
77 Inc. promissory notes dated December 22, 2014 ("77 Inc. 2014 Notes"):		
<i>GSNMF SUB-CDE 17 LLC ("GSNMF-17")</i>		
GSNMF-17 Loan A	3,448,930	3,448,930
GSNMF-17 Loan B	1,551,070	1,551,070
<i>DVCI CDE XXIV, LLC ("DVCI")</i>		
DVCI Loan A	6,888,931	6,888,931
DVCI Loan B	2,811,069	2,811,069
	<u>14,700,000</u>	<u>14,700,000</u>
77 Inc. promissory notes dated May 26, 2016 ("77 Inc. 2016 Notes"):		
<i>GSNMF SUB-CDE 21 LLC ("GSNMF-21")</i>		
GSNMF-21 Loan A	5,441,600	5,441,600
GSNMF-21 Loan B	2,558,400	2,558,400
<i>BRP SUB-CDE TWO, LLC ("BRP")</i>		
BRP Loan A	13,975,890	13,975,890
BRP Loan B	5,224,110	5,224,110
	<u>27,200,000</u>	<u>27,200,000</u>
	66,220,000	66,220,000
Less: Unamortized Loan Costs	<u>(2,196,346)</u>	<u>(2,855,799)</u>
	<u>\$ 64,023,654</u>	<u>\$ 63,364,201</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 8. COMMUNITY DEVELOPMENT NOTES PAYABLE *(Continued)*

GMC Notes

On September 6, 2012, GMC Landlord entered into a loan agreement with ESNMC, ERF and GSNMF to finance improvements to certain buildings in the Navy Yard (the “Buildings”). The loan agreement is secured by the property and consists of six promissory as listed above. Each of the promissory notes bear interest at 1% per annum. From September 6, 2012 to December 31, 2019, interest only shall be payable annually, commencing November 1, 2012 through November 1, 2019, for interest accruing through the end of the calendar year that the interest is due. Commencing November 1, 2020 and annually through maturity on November 1, 2042, annual payments of principal and interest shall be due on each of the promissory notes as follows: \$415,041 for ESNMC Loan A; \$151,057 for ESNMC Loan B; \$276,694 for ERF Loan A; \$97,772 for ERF Loan B; \$172,934 for GSNMF Loan A; and \$71,496 for GSNMF Loan B.

Interest expense on the GMC Notes totaled \$243,200 in fiscal year 2018 and 2017; accrued interest payable, which is included in accounts payable and accrued expenses, totaled \$141,867 and \$121,600, respectively at June 30, 2018 and 2017.

The aggregate annual principal and interest due on the GMC Notes over the next five years and thereafter following June 30, 2018 are as follows:

Fiscal Year Ending				
June 30	Principal		Interest	Total
2019	\$ -	\$	243,200	\$ 243,200
2020	-		243,200	243,200
2021	941,794		243,200	1,184,994
2022	951,212		233,782	1,184,994
2023	960,724		224,270	1,184,994
Thereafter	<u>21,466,270</u>		<u>2,328,513</u>	<u>23,794,783</u>
	<u>\$ 24,320,000</u>	<u>\$</u>	<u>3,516,165</u>	<u>\$ 27,836,165</u>

Under the loan agreement, ESNMC and ERF each earns an annual asset management fee of \$42,000 and \$60,000, respectively, prorated for partial years, commencing on November 15, 2012 and continuing for the term of the respective loans. For the fiscal years ended June 30, 2018 and 2017, ESNMC and ERF asset management fees totaled \$127,000 and \$42,000, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 8. COMMUNITY DEVELOPMENT NOTES PAYABLE *(Continued)*

GMC Notes *(Continued)*

Further, ESNMC and ERF each receives a CDE expense reimbursement of \$12,500, commencing on November 15, 2012 and continuing for the term of the respective loans. In 2019, there will be a CDE expense reimbursement to each of ESNMC and ERF equal to two annual installments in the amount of \$12,500 each, both payable on September 6, 2019. For the fiscal years ended June 30, 2018 and 2017, ESNMC and ERF CDE expense reimbursements totaled \$25,000.

77 Inc. 2014 Notes

On December 22, 2014, 77 Inc. entered into a loan agreement with GSNMF-17 and DVCI to finance improvements to a building in the Navy Yard (“Building 77”). The loan agreement is collateralized by the building of the corporation and consists of four promissory as listed above. Each of the promissory notes bear interest at 1% per annum. From December 22, 2014, interest only on the principal balance accrued during the respective preceding calendar quarters shall be payable on January 5, April 1, July 1 and October 1. Commencing April 1, 2022 and continuing every July 1, October 1, January 5 and April 1 thereafter up and including the maturity date on October 1, 2049, quarterly payments of principal and interest shall be due on each of the promissory notes as follows: \$35,620 for GSNMF-17 Loan A; \$16,019 for GSNMF-17 Loan B; \$71,148 for DVCI Loan A; and \$29,033 for DVCI Loan B.

Interest incurred on the 77 Inc. 2014 Notes totaled \$147,000 in fiscal year 2018 and 2017; of which fiscal year 2017 was capitalized to leasehold improvements. Accrued interest payable, which is included in accounts payable and accrued expenses, totaled \$36,750 at June 30, 2018 and 2017.

In accordance with the Corporation's loan agreement, DVCI earns an asset management fee in the amount of \$50,000 annually, prorated for partial years, commencing on November 15, 2012 and continuing for the term of the DVCI loan. For the years ended June 30, 2018 and 2017, DVCI asset management fees of \$50,000 have been incurred and paid. The fiscal year 2017 asset management fees were capitalized.

In accordance with the loan agreement, an audit and tax expense reimbursement to DVCI equal to \$10,570 is due annually from the DVCI Fee Reserve, commencing on November 15, 2012 and continuing for the term of the DVCI loan. For the years ended June 30, 2018 and 2017, DVCI asset management fees of \$10,570 have been incurred and paid. The fiscal year 2017 asset management fees were capitalized.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 8. COMMUNITY DEVELOPMENT NOTES PAYABLE *(Continued)*

77 Inc. 2014 Notes *(Continued)*

The aggregate annual principal and interest due on the 77 Inc. 2014 Notes over the next five years and thereafter following June 30, 2018 are as follows:

Fiscal Year Ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$	-	\$ 147,000	\$ 147,000
2020		-	147,000	147,000
2021		-	147,000	147,000
2022		115,071	147,000	262,071
2023		463,166	144,116	607,282
Thereafter		<u>14,121,763</u>	<u>1,971,221</u>	<u>16,092,984</u>
	\$	<u>14,700,000</u>	\$ <u>2,703,337</u>	\$ <u>17,403,337</u>

77 Inc. 2016 Notes

On May 26, 2016, 77, Inc. entered into separate loan agreements with GSNMF-21 and BRP to finance rehabilitation of improvements to Building 77. The loan mortgages are collateralized by the building of the corporation and consists of four promissory as listed above. The GNSMF-21 promissory notes bear interest at 0.855% per annum and BRP promissory notes bear interest at 0.884% per annum. From May 26, 2016, interest only on the principal balance accrued during the respective preceding calendar quarters shall be payable on January 1, April 1, July 1 and October 1. Commencing April 1, 2022 and continuing every July 1, October 1, January 1 and April 1 thereafter up and including the maturity date on October 1, 2049, quarterly payments of principal and interest shall be due on each of the promissory notes as follows: \$55,121 for GSNMF-21 Loan A; \$25,915 for GSNMF-21 Loan B; \$142,121 for BRP Loan A; and \$53,124 for BRP Loan B.

Interest incurred on the 77 Inc. 2016 Notes totaled \$238,128 in fiscal years 2018 and 2017, of which \$238,128 was capitalized in 2017. Accrued interest payable, which is included in accounts payable and accrued expense totaled \$59,532 at June 30, 2018 and 2017.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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June 30, 2018 and 2017

NOTE 8. COMMUNITY DEVELOPMENT NOTES PAYABLE *(Continued)*

77 Inc. 2016 Notes *(Continued)*

The aggregate annual principal and interest due on the 77 Inc. 2016 Notes over the next five years and thereafter following June 30, 2018 are as follows:

Fiscal Year Ending				
June 30	Principal		Interest	Total
2019	\$ -	\$	238,128	\$ 238,128
2020	-		238,128	238,128
2021	-		238,128	238,128
2022	216,750		238,128	454,878
2023	871,755		233,374	1,105,129
Thereafter	<u>26,111,495</u>		<u>3,174,410</u>	<u>29,285,905</u>
	<u>\$ 27,200,000</u>	\$	<u>4,360,296</u>	<u>\$ 31,560,296</u>

In accordance with the loan agreement, BRP CDE, LLC ("Allocatee") earns a management fee in the amount of \$250,000 and payable in installments commencing on May 26, 2016. The final installment is due on May 26, 2019. For the years ended June 30, 2018 and 2017, Allocatee management fees of \$78,732 have been incurred, paid, and the 2017 fees capitalized.

NOTE 9. CONSTRUCTION LOAN PAYABLE

On April 2, 2015, GMC Landlord entered into a loan agreement with New Lab, LLC, a lessee in Building 128 in the Navy Yard, in the amount of \$11,884,883 to finance the construction of New Lab premises at Building 128. The loan accrues interest at 2.44% per annum and compounds monthly from the date of the initial advance through the date the loan is converted to a new principal, which occurred on March 1, 2017.

On the date of the conversion, the loan balance was established at \$13,744,373 and included additional advances of \$1,694,884 for construction costs, compounded accrued interest to date of \$371,360 and a reduction of \$206,754 representing the remittance of contribution from BNY HTC pursuant to the Operating Agreement dated April 2, 2015. Monthly payments of \$129,193 are due beginning April 5, 2017 through March 5, 2027. Payments for 2018 consisted of 1,550,321, consisting of \$1,238,662 in principal and \$311,659 in interest.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 9. CONSTRUCTION LOAN PAYABLE *(Continued)*

Subsequent to the conversion date, the loan principal was increased by \$1,676,468 on March 29, 2017 for additional construction costs on the New Lab premises and reduced by \$2,601,340 and \$837,522 on June 29, 2017 and August 21, 2017, respectively, representing additional contribution from BNY HTC. Accordingly, the amortization schedule for the loan will be adjusted to reflect these transactions.

The construction loan is collateralized by tenant improvement rents paid by New Lab under its lease estimated to be approximately \$15,318,000. It is further collateralized by any accounts arising from various lease and security agreements.

The aggregate annual principal and interest due on the construction loan over the next five years and thereafter following June 30, 2018, before adjustments of the monthly payments as a result of the construction costs added in March 2018 and BNY HTC contribution in June 2018, are as follows:

Fiscal Year Ending					
<u>June 30</u>		<u>Principal</u>		<u>Interest</u>	
				<u>Total</u>	
2019	\$	1,347,951	\$	202,370	\$ 1,550,321
2020		1,388,693		161,628	1,550,321
2021		1,422,959		127,362	1,550,321
2022		1,458,070		92,251	1,550,321
2023		1,494,048		56,273	1,550,321
Thereafter		<u>1,389,618</u>		<u>75,494</u>	<u>1,465,112</u>
	\$	<u>8,501,339</u>	\$	<u>715,378</u>	<u>\$ 9,216,717</u>

NOTE 10. CAPITAL CONTRIBUTIONS AND GRANTS

City Capital Contributions

Since 1996, BNYDC receives contributions from The City for the replacement and rehabilitation of capital assets funded from City capital budget. For the years ended June 30, 2018 and 2017, BNYDC recognized \$11,734,373 and \$43,475,595, respectively, as non-operating revenue for rehabilitation work completed.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 10. CAPITAL CONTRIBUTIONS AND GRANTS *(Continued)*

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, 2018 and 2017, contributions of \$0 and \$2,928,248, respectively, were received.

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. For the years ended June 30, 2018 and 2017, contributions of \$0 and \$2,808,093, respectively, were received.

Other Capital Grants

During the year ended June 30, 2018 and 2017, BNYDC received capital funds of \$1,241,477 and \$2,070,907, respectively, from Empire State Development Corporation and other grantors to facilitate improvements to the Navy Yard.

NOTE 11. LEASES WITH TENANTS

BNYDC has lease commitments from over 300 commercial tenants for space for periods ranging from one to thirty-nine years. Minimum future rental income from those leases is as follows:

2019	\$ 39,783,332
2020	37,468,976
2021	35,728,238
2022	31,911,761
2023-2027	117,085,440
2028-2032	90,986,334
2033-2037	64,851,051
2038-2042	53,719,143
2043-2047	24,848,944
2048-2052	14,572,415
2053-2057	<u>4,412,218</u>
	<u>\$ 515,367,852</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 12. 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 with an annual maximum limit of \$1,000,000. Management believes that the ultimate resolution of such claims will not have a materially adverse effect on BNYDC's consolidated financial statements.

NOTE 13. SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, BNYDC evaluated subsequent events after the statement of financial position date of June 30, 2018 through September 13, 2018, 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.

GOVERNMENT REPORTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
SCHEDULE OF PROPERTY MANAGEMENT REVENUE AND EXPENSES
For The Year Ended June 30, 2018
(With Comparative Totals For 2017)

Schedule I

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES	\$ 51,189,316	\$ 39,122,920
EXPENSES		
Direct expenses		
<i>Utilities</i>		
Electric	5,389,465	4,165,301
Steam	1,249,532	849,291
Water	633,258	724,297
<i>Payroll and related fringe benefits</i>		
Protective services and transportation	3,522,035	3,194,612
Maintenance, utilities and engineering	4,299,134	3,317,317
Fringe benefits	3,802,232	2,902,611
<i>Other Direct Expenses</i>		
Materials, supplies and building maintenance	4,026,734	2,908,090
Events, programs and exhibits	308,266	324,100
Property insurance	1,928,170	1,241,149
Brokerage and leasing	245,942	167,702
Provision for doubtful accounts	117,684	677,997
Total direct expenses	<u>25,522,452</u>	<u>20,472,467</u>
Net operating revenue	<u>25,666,864</u>	<u>18,650,453</u>
General and administrative expenses		
Personnel and fringe benefits	7,710,138	6,775,744
Other	5,298,688	3,783,511
Total general and administrative expenses	<u>13,008,826</u>	<u>10,559,255</u>
Operating income before depreciation and amortization and non-operating income (expense)	<u>12,658,038</u>	<u>8,091,198</u>
DEPRECIATION AND AMORTIZATION AND NON-OPERATING INCOME (EXPENSE)		
Depreciation and amortization	(28,303,322)	(18,739,530)
Interest Income	1,255,460	1,229,936
Interest Expense	(6,703,147)	(3,100,562)
Net depreciation and amortization and non-operating income (expense)	<u>(33,751,009)</u>	<u>(20,610,156)</u>
Loss before capital contributions	<u>\$ (21,092,971)</u>	<u>\$ (12,518,958)</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
For The Year Ended June 30, 2018
(With Comparative Totals for 2017)

Schedule II

	<u>2018</u>	<u>2017</u>
PERSONNEL AND FRINGE BENEFIT EXPENSES		
Executive and legal	\$ 1,441,506	\$ 1,502,394
Finance and leasing	1,332,964	1,136,190
Human resources	390,198	344,728
Development and external affairs	1,057,277	838,846
Technology and information	279,581	236,061
Building 92 and employment center	703,212	601,522
Payroll taxes and fringe benefits	<u>2,534,822</u>	<u>2,280,623</u>
Total personnel and fringe benefits	7,739,560	6,940,364
Less payroll and related costs capitalized	<u>(29,422)</u>	<u>(164,620)</u>
Net personnel and fringe benefit expenses	<u>7,710,138</u>	<u>6,775,744</u>
OTHER EXPENSES		
Legal	747,450	745,235
Audit and Tax Fees	139,711	44,500
Computer contract and supplies	917,971	669,225
Postage	17,045	15,907
Communication	173,747	138,761
Director's liability insurance	13,183	13,093
Corporate	159,292	117,345
Board	6,916	6,749
Community employment	331,441	270,886
Advertising and marketing	579,804	463,816
Stationery and office supplies	90,534	61,151
Consultants	890,035	382,472
Gasoline	124,119	140,105
Vehicle repairs and maintenance	440,327	398,910
Payroll processing	90,403	56,760
Education and training	175,908	182,496
State and Local taxes	201,512	-
Asset Management Fee	205,000	-
Miscellaneous	<u>152,964</u>	<u>168,022</u>
Total other expenses	5,457,362	3,875,433
Less other expenses capitalized	<u>(158,674)</u>	<u>(91,922)</u>
Net other expenses	<u>5,298,688</u>	<u>3,783,511</u>
Total general and administrative expenses	<u><u>\$ 13,008,826</u></u>	<u><u>\$ 10,559,255</u></u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION.
SCHEDULE OF EXPENDITURS OF FEDERAL AWARD
For The Year Ended June 30, 2018

Federal Grantor	Federal CFDA Number	Pass-through Grantor's Number	Grant Period Beginning/ Ending Dates	Program or Award Amount	Total Expenditures
<u>Program Title</u>					
<u>U.S. Department of Commerce</u>					
Public Works	11.300	N/A	10/2016 - 11/2017	\$ 5,320,000	\$ 1,241,477

See paragraph on required supplementary information included in auditor's report.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
June 30, 2018

NOTE 1. OVERVIEW OF SCHEDULE

The accompanying schedule of expenditures of federal awards presents the activities of all federal assistance programs and contracts of Brooklyn Navy Yard Development Corporation. The reporting entity is defined in Note 1 of Notes to the Financial Statements. All federal assistance received directly from federal agencies as well as federal assistance passed through other government agencies are 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 2 of Notes to the Financial Statements.

NOTE 3. INDIRECT COST RATE

Brooklyn Navy Yard Development Corporation did not use the 10% de minimis cost rate for 2017.

**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 consolidated statement of net position as of June 30, 2018, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 13, 2018.

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 BNYDC'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 BNYDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deans • Archer & Co

Valley Stream, New York
September 13, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited Brooklyn Navy Yard Development Corporation, (“BNYDC”) 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 programs for the year ended June 30, 2018. BNYDC’s major federal programs are identified in the summary of the auditor’s results section of the accompanying schedule of findings and questioned costs.

Management Responsibility

Management is responsible for compliance with the requirements of 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 BNYDC’s major federal programs 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 programs for the year ended June 30, 2018.

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 each 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 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 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.

The 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Valley Stream, New York
September 13, 2018

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, 2018

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness (es) identified?	___ Yes	___x___ No
Significant deficiency (ies) identified?	___ Yes	___x___ None reported
Noncompliance material to financial statements noted?	___ Yes	___x___ No

Federal Awards

Internal control over major programs:		
Material weakness (es) identified?	___ Yes	___x___ No
Significant deficiency (ies) identified?	___ Yes	___x___ None Reported

Type of auditors' report issued on compliance for major programs:	<u>Unmodified Opinion</u>
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For Reporting and Special Test and Provisions (Public Works – CFDA No. 11.300)

Any audit findings disclosed that are required to be reported in accordance with OMB Uniform Guidance Section 200.516(a)?	___ Yes	___x___ No
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Identification of major programs

CFDA Number(s)	<u>Name of Federal Program or Cluster</u>
11.300	Public Works
Dollar threshold used to distinguish between Types A and B programs:	<u>\$750,000</u>
Auditee qualified as a low-risk auditee	___ Yes ___x___ No

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SUMMARY SCHEDULE OF CURRENT YEAR'S AUDIT FINDINGS AND QUESTIONED
COSTS
For the year ended June 30, 2018

B. CURRENT YEAR'S - FINANCIAL STATEMENTS FINDING

No current year's findings were reported.

B. CURRENT YEAR'S - MAJOR FEDERAL AWARD PROGRAM

No current year's findings were reported.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A component of The City of New York)
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS AND
QUESTIONED COSTS
For the year ended June 30, 2018

B. PRIOR YEAR'S - MAJOR FEDERAL AWARD PROGRAM

Not applicable.