



BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

A COMPONENT UNIT OF THE CITY OF NEW YORK

**Financial Statements and Supplementary Information
(Together with Independent Auditors' Report)**

June 30, 2019 and 2018

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
A COMPONENT UNIT OF THE CITY OF NEW YORK
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
(Together with Independent Auditors' Report)

JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors of
Brooklyn Navy Yard Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Navy Yard Development Corporation (the "Corporation"), a component unit of The City of New York, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of the Corporation as of and for the year ended June 30, 2018, were audited by other auditors whose report dated September 13, 2018 expressed an unmodified opinion on those statements. As discussed in Note 15 to the financial statements, the Corporation has restated its 2018 financial statements during the current year for a correction of an error for revenues and expenses recognized in the incorrect period and to properly account for net position in accordance with Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The other auditors reported on the 2018 financial statements before the restatement.

As part of our audit of the 2019 financial statements, we also audited adjustments described in Note 15 to the financial statements that were applied to restate the 2018 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 financial statements of the Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of property management revenue and expenses for the year ended June 30, 2019 and the schedule of general and administrative expenses for the year ended June 30, 2019 (shown on pages 41 and 42) are presented for the purpose of additional analysis and are 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, including the adjustments to the 2018 supplementary information described in Note 15 to the financial statements, 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.

The 2018 schedule of property management revenue and expenses and the 2018 schedule of general and administrative expenses, except for the information as it relates to the restatement as described in Note 15 to the financial statements, (shown on pages 41 and 42) were subjected to the auditing procedures applied in the June 30, 2018 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the June 30, 2018 financial statements as a whole.



New York, NY
September 30, 2019

MARKS PANETH

ACCOUNTANTS & ADVISORS

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018**

OVERVIEW OF THE ORGANIZATION

The following is an overview of the financial activities of Brooklyn Navy Yard Development Corporation (the "Corporation") for the fiscal years ended June 30, 2019 and 2018. The Corporation is a component unit of The City of New York (the "City").

The mission of the Corporation 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.

The Corporation is responsible for the leasing, management, and development of the Navy Yard for industrial, maritime, and commercial uses. The Corporation operates under a lease with the City that, after exercising all renewal periods, expires in 2111 and also under an annual management contract. The Corporation has the dual responsibility of generating revenues to cover all of its operating expenses while simultaneously implementing strategies to retain and increase employment. The Corporation is also responsible for the maintenance of the Navy Yard's buildings, roadways, utility distribution systems, fire hydrants, water and sewage, sanitation, snow removal, and street security.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three parts (1) management's discussion and analysis (this section), (2) the basic financial statements and (3) the notes to the financial statements. The basic financial statements of the Corporation, which include the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows, are presented for the purposes of displaying entity-wide information in accordance with Governmental Accounting Standards Board ("GASB") requirements. These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

FINANCIAL HIGHLIGHTS

Current and Noncurrent Assets

Current assets consisted of the following as of June 30:

	2019	(Restated)	2017	Variance %	
		2018		2019-2018	2018-2017
Current assets					
Cash and cash equivalents	\$ 5,824,479	\$ 7,267,622	\$ 22,925,617	-20%	-68%
Accounts receivable	2,589,624	1,753,762	1,134,172	48%	55%
Grants receivable	8,803,270	8,998,235	1,528,385	-2%	489%
Prepaid expenses and other current assets	1,265,630	1,633,245	1,118,385	-23%	46%
Total Current Assets	<u>\$ 18,483,003</u>	<u>\$ 19,652,864</u>	<u>\$ 26,706,559</u>	-6%	-26%

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018

FINANCIAL HIGHLIGHTS (Continued)

As of June 30, 2019, the Corporation had current assets of \$18,483,003 consisting of cash and cash equivalents of \$5,824,479, accounts receivable of \$2,589,624, grants receivable of \$8,803,270 and prepaid expenses and other current assets of \$1,265,630.

The cash and cash equivalents decreased \$1,443,143 or 20%, mainly due to investments from the Corporation into self-funded capital projects. The accounts receivable increase of \$0.8 million and 48% was 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 and other non-governmental organizations for several projects in the Navy Yard.

Noncurrent Assets

Noncurrent assets consisted of the following as of June 30:

	2019	(Restated) 2018	2017	Variance %	
				2019-2018	2018-2017
Noncurrent assets					
Restricted cash and cash equivalents	\$ 72,161,216	\$ 8,868,661	\$ 30,316,580	714%	-71%
Tenants' security deposits	8,633,648	7,518,551	6,285,261	15%	20%
Community development notes receivable	76,093,099	50,555,886	49,993,872	51%	1%
Lease assets	7,258,852	8,120,065	4,402,847	-11%	84%
Capital assets, net	<u>558,433,467</u>	<u>514,123,536</u>	<u>499,979,336</u>	9%	3%
Total Noncurrent Assets	<u>\$ 722,580,282</u>	<u>\$ 589,186,699</u>	<u>\$ 590,977,896</u>	23%	0%

As of June 30, 2019, the Corporation had noncurrent assets of \$722,580,282 consisting of restricted cash and cash equivalents of \$72,161,216, tenants' security deposits of \$8,633,648, community development notes receivables of \$76,093,099, lease assets of \$7,258,852 and capital assets of \$558,433,467. Capital assets are net of accumulated depreciation.

The Corporation's restricted cash and cash equivalents are comprised of the cash reserved for the construction projects. The increase in restricted cash equivalents is due to the investments in new capital projects throughout the Navy Yard.

The capital assets are comprised of improvements to the land and buildings, office equipment, and automobiles, trucks and machinery. The capital assets increased \$44.3 million and 9%, 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.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018

FINANCIAL HIGHLIGHTS (Continued)

Current and Noncurrent Liabilities

Liabilities consisted of the following as of June 30:

	2019	(Restated) 2018	2017	Variance %	
				2019-2018	2018-2017
Current liabilities					
Accounts payable and accrued expenses	\$ 12,188,309	\$ 5,634,458	\$ 14,717,500	116%	-62%
Unearned revenues	45,000,461	6,651,423	5,062,809	577%	31%
Development loans payable	7,143,609	1,205,242	-	493%	-
Construction loan payable	<u>1,502,942</u>	<u>1,347,951</u>	<u>-</u>	11%	-
Total Current Liabilities	<u>65,835,321</u>	<u>14,839,074</u>	<u>19,780,309</u>	344%	-25%
Noncurrent liabilities					
Tenants' security deposits	8,146,035	7,518,551	6,285,261	8%	20%
Unearned revenues	395,348	263,870	263,870	50%	0%
Development loans payable	150,631,921	133,224,758	132,612,004	13%	0%
Community development notes payable	101,550,000	66,220,000	63,364,201	53%	5%
Construction loan payable	5,867,352	7,425,216	12,515,144	-21%	-41%
Other long-term liabilities	<u>1,885,850</u>	<u>869,654</u>	<u>-</u>	-	-
Total Noncurrent Liabilities	<u>268,476,506</u>	<u>215,522,049</u>	<u>215,040,480</u>	25%	0%
Total Liabilities	<u>\$ 334,311,827</u>	<u>\$ 230,361,123</u>	<u>\$ 234,820,789</u>	45%	-2%

Current liabilities of \$65,835,321 were recorded as of June 30, 2019, an increase of \$50.1 million or 344%, the result of an increase in unearned revenues related to City capital contributions for multiple ongoing capital projects. Noncurrent liabilities of \$268,476,506 were recorded as of June 30, 2019, an increase of \$53 million or 25%, the result of an increase in development loans and community development notes payable, both related to the redevelopment of Building 127 (see Notes 8 and 9).

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018

FINANCIAL HIGHLIGHTS (Continued)

Statements of Revenues, Expenses and Changes in Net Position

The following summarizes the Corporation's changes in net position for the years ended June 30:

	2019	(Restated)	2017	Variance %	
		2018		2019-2018	2018-2017
Operating revenues	\$ 60,715,236	\$ 51,189,316	\$ 39,122,920	19%	31%
Operating expenses	75,865,345	65,600,296	49,771,252	16%	32%
Operating loss	(15,150,109)	(14,410,980)	(10,648,332)	5%	35%
Non-operating revenue	1,654,767	1,255,460	1,229,936	32%	2%
Non-operating expense	11,295,195	6,703,147	3,100,562	69%	116%
Non-operating revenue (expense)	(9,640,428)	(5,447,687)	(1,870,626)	77%	191%
Loss before capital contributions	(24,790,537)	(19,858,667)	(12,518,958)	25%	59%
Capital contributions	53,063,555	16,419,126	48,474,750	223%	-66%
Change in net position	28,273,018	(3,439,541)	35,955,792	-922%	-110%
Net position, beginning of year, as previously reported	378,478,440	382,863,666	346,907,874		
Prior period adjustment	-	(945,685)	-		
Net position, beginning of year, restated	378,478,440	381,917,981	346,907,874	-1%	10%
Net position, end of year	\$ 406,751,458	\$ 378,478,440	\$ 382,863,666	7%	-1%

The Corporation manages and leases over 5,000,000 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, the Corporation generates revenues to cover its operating costs, as well as surplus monies that are reinvested in the facility. Properties are leased to tenants on both a short-term and long-term basis. In addition, the Corporation facilitates business growth and expansion on the part of its tenants by creating an environment that complements their business and therefore helps create jobs.

Operating Revenues

The demand for industrial space continued to be strong during fiscal year 2019. The Corporation realized an increase in operating revenues of \$9.5 million or 19% 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.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2019 AND 2018

FINANCIAL HIGHLIGHTS (Continued)

Operating Expenses

The total operating expenses increased by \$10.3 million or 16% due mainly to increases in depreciation, personnel and fringe benefits, utilities, insurance, and new expenses related to Building 77, and the expansion of Navy Yard operations.

Losses Before Capital Contributions

There were losses before capital contributions of \$24.8 million and \$19.9 million for the years ended June 30, 2019 and 2018, respectively. The operating loss for the year ended June 30, 2019 increased by 25%. A significant portion of the Corporation's operating losses were comprised of \$28.8 million of depreciation and amortization expense. During the last few years, there were several new capital projects placed into service generating additional depreciation.

Net Position

Net position as of June 30, 2019 was \$406,751,458 and increase of \$28.3 million from the prior year (as restated). This increase in total net position is a direct result of the increase in the City and the Corporation's capital investments in the Navy Yard.

The Corporation's net position is classified in the following categories: net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of the Corporation's capital assets (net of accumulated depreciation and amortization) reduced by the outstanding balance of debt attributable to the acquisition, construction or improvement of those capital assets. The net investment in capital assets amounted to \$300.4 million and \$307.3 million as of June 30, 2019 and 2018, respectively. Although the investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources since capital assets cannot be used to liquidate these liabilities. The Corporation's restricted net position of \$27.2 million and \$2.2 million as of June 30, 2019 and 2018, respectively, represent resources that are subject to various external restrictions. These amounts are generally restricted under debt or other agreements. The remaining balance in net position is classified as unrestricted and amounted to \$79.2 million and \$69 million as of June 30, 2019 and 2018, respectively.

Prior Period Adjustment

For the year ended June 30, 2019, management recorded a prior period adjustment for a correction of an error for revenues and expenses recognized in the incorrect period and to properly account for net position in accordance with Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The overall effect of the restatements on the prior year financial statements was an increase to net position of \$3,731,894 and an increase to the change in net position of \$4,677,579. See Note 15 to the financial statements for the details of the restatement.

BNYDC Financial Management

This financial report is designed to provide our customers, clients and the public with a general overview of the Corporation's finances. Questions concerning any of the information in this report or questions for additional financial information should be directed to Brooklyn Navy Yard Development Corporation, Building 77, 141 Flushing Avenue, Suite 801, Brooklyn, NY 11205.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>(Restated)</u> <u>2018</u>
ASSETS		
Current assets		
Cash and cash equivalents (Notes 2E and 3)	\$ 5,824,479	\$ 7,267,622
Accounts receivable, net of allowance for doubtful accounts of \$792,174 in 2019 and \$844,660 in 2018 (Note 2F)	2,589,624	1,753,762
Grants receivable (Note 2D)	8,803,270	8,998,235
Prepaid expenses and other current assets (Notes 2G and 4)	<u>1,265,630</u>	<u>1,633,245</u>
Total current assets	<u>18,483,003</u>	<u>19,652,864</u>
Noncurrent assets		
Restricted cash and cash equivalents (Note 3)	72,161,216	8,868,661
Tenants' security deposits	8,633,648	7,518,551
Community development notes receivable (Notes 2I and 4)	76,093,099	50,555,886
Lease assets (Note 2D)	7,258,852	8,120,065
Capital assets, net (Notes 2J and 5)	<u>558,433,467</u>	<u>514,123,536</u>
Total noncurrent assets	<u>722,580,282</u>	<u>589,186,699</u>
TOTAL ASSETS	<u>\$ 741,063,285</u>	<u>\$ 608,839,563</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses (Notes 8, 9 and 10)	\$ 12,188,309	\$ 5,634,458
Unearned revenues (Notes 2K and 6)	45,000,461	6,651,423
Development loans payable (Note 8)	7,143,609	1,205,242
Construction loan payable (Note 10)	<u>1,502,942</u>	<u>1,347,951</u>
Total current liabilities	<u>65,835,321</u>	<u>14,839,074</u>
Noncurrent liabilities		
Tenants' security deposits	8,146,035	7,518,551
Unearned revenues (Notes 2K and 6)	395,348	263,870
Development loans payable (Note 8)	150,631,921	133,224,758
Community development notes payable (Note 9)	101,550,000	66,220,000
Construction loan payable (Note 10)	5,867,352	7,425,216
Other long-term liabilities	<u>1,885,850</u>	<u>869,654</u>
Total noncurrent liabilities (Note 7)	<u>268,476,506</u>	<u>215,522,049</u>
Total liabilities	<u>334,311,827</u>	<u>230,361,123</u>
Net position (Note 2M)		
Net investment in capital assets	300,384,194	307,253,562
Restricted:		
Capital projects	24,789,361	270,804
Debt service and other reserves	2,376,394	1,946,434
Unrestricted	<u>79,201,509</u>	<u>69,007,640</u>
Total net position	<u>406,751,458</u>	<u>378,478,440</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 741,063,285</u>	<u>\$ 608,839,563</u>

See accompanying notes to the financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>(Restated) 2018</u>
OPERATING REVENUES		
Revenue from leases (Notes 2D and 12)		
Rents	\$ 50,613,350	\$ 42,502,554
Insurance	838,203	710,150
Utilities	6,438,178	6,415,956
Grants (Note 2D)	1,144,372	547,396
Other income	1,681,133	1,013,260
	<u>60,715,236</u>	<u>51,189,316</u>
OPERATING EXPENSES		
Property management		
Personnel and fringe benefits	14,046,252	11,623,401
Utilities	7,937,524	6,927,323
Property insurance	2,155,848	1,928,170
Brokerage and leasing	1,514,745	448,475
Provision for doubtful accounts	566,390	117,684
Events, programs and exhibits	312,806	308,266
Operating and maintenance	4,780,833	4,026,733
Depreciation and amortization	28,791,147	27,211,418
	<u>60,105,545</u>	<u>52,591,470</u>
General and administrative		
Personnel and fringe benefits	8,424,279	7,710,138
Other	7,335,521	5,298,688
	<u>15,759,800</u>	<u>13,008,826</u>
Total operating expenses (Note 2C)	<u>75,865,345</u>	<u>65,600,296</u>
Operating loss	(15,150,109)	(14,410,980)
NONOPERATING INCOME (EXPENSE)		
Interest expense (Notes 8, 9 and 10)	(8,278,630)	(6,703,147)
Financing costs incurred (Note 2L)	(3,016,565)	-
Interest income (Notes 2I and 4)	1,654,767	1,255,460
	<u>(24,790,537)</u>	<u>(19,858,667)</u>
CAPITAL CONTRIBUTIONS		
Funding from The City of New York (Note 11)	46,477,746	11,734,373
Capital grants (Note 11)	4,016,937	4,684,753
Tax credit investor contributions	2,568,872	-
	<u>28,273,018</u>	<u>(3,439,541)</u>
Change in net position	<u>28,273,018</u>	<u>(3,439,541)</u>
Net position, beginning of year (as previously stated)	378,478,440	382,863,666
Prior period adjustment (Note 15)	-	(945,685)
Net position, beginning of year (restated)	<u>378,478,440</u>	<u>381,917,981</u>
Net position, end of year	<u>\$ 406,751,458</u>	<u>\$ 378,478,440</u>

See accompanying notes to the financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>(Restated)</u> <u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenants	\$ 57,915,082	\$ 49,009,071
Grants received	1,144,372	547,396
Other receipts	1,681,133	1,013,260
Payments to vendors and suppliers	(31,393,378)	(28,813,677)
Payments to employees	<u>(15,874,834)</u>	<u>(13,745,996)</u>
Net Cash Provided by Operating Activities	<u>13,472,375</u>	<u>8,010,054</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	91,739,036	10,995,491
Purchases of capital assets	(65,985,598)	(46,247,885)
Financing costs incurred	(3,016,565)	-
Increase in tenant security deposits	(487,613)	-
Proceeds from notes payable and loans payable	59,846,717	-
Repayments of notes and loans payable	<u>(1,557,864)</u>	<u>(4,415,887)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>80,538,113</u>	<u>(39,668,281)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in community development notes receivable	(25,537,213)	-
Interest income	1,654,767	1,255,460
Interest expense	<u>(8,278,630)</u>	<u>(6,703,147)</u>
Net Cash Used in Investing Activities	<u>(32,161,076)</u>	<u>(5,447,687)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	61,849,412	(37,105,914)
Cash and cash equivalents, beginning of year	<u>16,136,283</u>	<u>53,242,197</u>
Cash and cash equivalents, end of year	<u>\$ 77,985,695</u>	<u>\$ 16,136,283</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (15,150,109)	\$ (14,410,980)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	28,791,147	27,211,418
Changes in operating assets and liabilities:		
Accounts receivable	(835,862)	(619,590)
Prepaid expenses and other current assets	367,615	(514,860)
Accounts payable and accrued expenses	(561,629)	(3,655,934)
Unearned revenue	<u>861,213</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 13,472,375</u>	<u>\$ 8,010,054</u>
RECONCILIATION TO CASH AND CASH EQUIVALENTS, END OF YEAR:		
Unrestricted cash and cash equivalents	\$ 5,824,479	\$ 7,267,622
Restricted cash and cash equivalents	<u>72,161,216</u>	<u>8,868,661</u>
	<u>\$ 77,985,695</u>	<u>\$ 16,136,283</u>
Supplemental Disclosure of Cash Flow Information:		
Capitalized interest	<u>\$ 313,198</u>	<u>\$ -</u>
Noncash capital and related financing transactions:		
Accrued capital asset expenditures	<u>\$ 7,726,281</u>	<u>\$ 610,801</u>

See accompanying notes to the financial statements.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – BACKGROUND AND ORGANIZATION

Brooklyn Navy Yard Development Corporation (the “Corporation”) is a not-for-profit corporation formed pursuant to the not-for-profit law of the State of New York (the “State”) and is a public charity exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). The members of the Board of Directors (the “Board”) serve at the pleasure of the Mayor of The City of New York (the “City”).

Although legally separate from the City, the City is financially accountable for the Corporation and the Corporation is included in the City’s financial statements as a discretely presented component unit in accordance with Governmental Accounting Standards Board (“GASB”) standards.

The mission of the Corporation 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”). The Corporation 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

The Corporation’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 the Corporation 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 the existing lease agreement between the City and the Corporation, the lease has a term of 49 years commencing July 1, 2012, with five 10-year extension periods.

The City and the Corporation also entered into annual management contracts whereby, among other provisions, the City funded the improvement, replacement and rehabilitation of the infrastructure in the Navy Yard. In prior years, the Corporation advanced the funds for capital expenditures, resulting in a grant receivable from the City, which amounted to \$4,253,149 and \$4,954,959 at June 30, 2019 and 2018, respectively. The Corporation continues to operate under the terms of the management contract for fiscal year 2018 which provides that, if the Corporation maintains a balance of \$5,000,000 in its reserve funds (the “City Reserve Fund”), then the annual base rent under the lease for the fiscal year 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.

Financial Reporting Entity

The financial reporting entity consists of a) the primary government, which is the Corporation, b) organizations for which the Corporation is financially accountable and c) other organizations for which the nature and significance of their relationship with the Corporation are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete as set forth by GASB.

In evaluating how to define the Corporation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the Corporation’s reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – BACKGROUND AND ORGANIZATION (Continued)

The below organizations are included in the Corporation's reporting entity as blended component units. These organizations have been reported as blended component units because the Corporation owns a controlling interest in the organizations or the Corporation's Board comprises all or a majority of the voting board members of the organizations.

Building 128 Project ("Building 128")

- On June 19, 2012, the Corporation created the following for-profit companies, under the laws of the State, to rehabilitate a building in the Navy Yard, known as Building 128. Building 128 is a certified historic structure that is eligible for investment tax credits for qualifying rehabilitation expenditures pursuant to Section 47 of the Code.

GMC Brooklyn, Inc. ("GMC BK") - GMC BK is wholly owned by the Corporation 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 Building 128 from the Corporation. GMC Landlord is owned 90% by GMC BK, and 10% by GMC Master Tenant, LLC.

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 the Corporation owning the remaining 1% as managing member.

Building 77 Project ("Building 77")

- Building 77 QALICB, Inc. ("Building 77 QALICB") – Building 77 QALICB was formed in 2014 with the Corporation as the sole member. Building 77 QALICB was formed for the purpose of rehabilitating and operating Building 77. Building 77 is owned by the City and leased by the Corporation, which in turn has leased the property to Building 77 QALICB. Building 77 QALICB subleases the property to commercial tenants. Building 77 QALICB is exempt from income tax under Section 501(c)(3) of the Code.

Building 127 Project ("Building 127")

- Building 127 LL, Inc. ("127 LL") – 127 LL was formed on August 15, 2018, as a New York nonprofit corporation and the Corporation is the sole member of 127 LL. 127 LL has applied to be exempt from tax under Section 501(c)(3) of the Code. 127 LL was formed as part of the Corporation's efforts to renovate Building 127, an industrial facility, that is a certified historic structure and is eligible for investment tax credits for qualifying rehabilitation expenditures pursuant to Section 47 of the Code. 127 LL will engage solely in the facilitation of financing for redevelopment and subsequent leasing of Building 127.
- 127 Manager, Inc. ("127 Manager") – 127 Manager was formed on December 15, 2017 in connection with the Building 127 tax credit financing structure and. The Corporation is the sole shareholder of 127 Manager.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 – BACKGROUND AND ORGANIZATION (Continued)

- Building 127 Master Tenant, LLC (“127 MT”) – 127 MT was formed as a limited liability company under the laws of the State on December 15, 2017. 127 Manager is the managing member of, and owns a 1% interest in, 127 MT. 127 MT’s operating agreement was amended and restated on December 29, 2017 to admit Chase Community Equity LLC as the investor member which owns a 99% interest in 127 MT.
- Building 127 QALICB, LLC (“127 QALICB”) – 127 QALICB was formed as a limited liability company under the laws of the State on December 29, 2017. 127 Manager is the sole member of 127 QALICB.

Single Member LLCs

- On November 3, 2016, the Corporation created the following for-profit companies under the laws of the State for the purposes of subleasing to those companies certain Corporation 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 sublessees with the Corporation collateralize, among other security instruments, the loan agreements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Accounting

The Corporation’s 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 Corporation follows the pronouncements of the GASB.

B. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. 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.

C. Revenue and Expense Classification

The Corporation 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. The Corporation’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.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. *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, except that upfront lease payments received in advance of the period to which they apply are deferred and recognized as income during future periods.

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 the term of the lease. The difference between rental income recognized on a straight-line basis and the amount of rental payments collected, which is attributable to free or reduced rent, is reported as lease assets within noncurrent assets in the accompanying statements of net position.

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 capital 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.

E. *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.

F. *Accounts Receivable*

Accounts receivable are stated at the amount management expects 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 account receivables account.

G. *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the accompanying statements of net position.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fair Value Measurements

The Corporation categorizes its fair value measurements within the fair value hierarchy established under U.S. 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.

The Corporation's assets reported at fair value are disclosed in Note 3.

I. Community Development Notes Receivable

Notes receivable are carried at their uncollected principal balance. Interest income on the notes is accrued at the contractual rate on the principal amount outstanding. The Corporation routinely evaluates the creditworthiness of its borrowers and establishes reserves where the Corporation believes collectability is no longer reasonably assumed. Notes receivable are written down once management determines that the specific borrower does not have the ability to repay the note in full. Allowances for credit losses and doubtful accounts are maintained in amounts considered to be appropriate in relation to the notes receivable outstanding based on collection experience, economic conditions and credit risk quality. Delinquency is the primary indicator of credit quality. As of June 30, 2019 and 2018, no allowance for loan losses was recorded for the Corporation's notes receivable.

J. Capital Assets

Machinery, office equipment, leasehold improvements/buildings and water/sewer systems are recorded at cost. Maintenance and repairs are charged to operations as incurred. 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.

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	21-50
Tenant improvements	Life of lease
Water/sewer systems	21-75

K. Unearned Revenues

Unearned revenues arise when assets are received before a revenue recognition criterion has been satisfied. Unearned revenues include amounts received in advance and/or amounts from grants received before the eligibility requirements have been met.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. *Debt Issuance Costs*

Debt issuance costs are recognized as expenses in the period incurred.

M. *Net Position*

The Corporation's net position is classified in the following categories: net investment in capital assets; restricted, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of amounts restricted for specific purposes by law or by parties external to the Corporation. Unrestricted net position consists of amounts that are not classified as net investment in capital assets or unrestricted. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, consistent with any respective restrictions, and then to use unrestricted resources as they are needed.

N. *New Accounting Pronouncements*

The Corporation has adopted all current pronouncements of GASB that are applicable. During the year ended June 30, 2019, the Corporation adopted the following GASB statements:

- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018. The adoption of GASB 83 did not have an impact on the Corporation's financial statements.
- In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"). The objective of GASB 88 is to improve consistency in the information that is disclosed in notes to government financial statements related to debt by defining debt for the purpose of note disclosure and establishes additional note disclosure requirements related to debt obligations of governments, including direct borrowing and direct placements. The requirements of GASB 88 are effective for fiscal years beginning after June 15, 2018. The adoption of GASB 88 did not have a significant impact on the Corporation's financial statements.

Other accounting pronouncements which may impact the Corporation in future years are as follows:

- In June 2017, GASB issued Statement No. 87, *Leases* ("GASB 87"). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are 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 lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. The Corporation has not completed the process of evaluating GASB 87's impact on its financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB 89”). The objectives of GASB 89 are to enhance the relevance and comparability of information about capital assets and cost of borrowing for a reporting period and to simplify accounting for certain interest costs by requiring interest costs incurred before the end of a construction period to be recognized as an expense/expenditure in governmental fund and government-wide financial statements. The requirements of GASB 89 are effective for fiscal years beginning after December 15, 2019. The Corporation has not completed the process of evaluating GASB 89’s impact on its financial statements.
- In September 2018, GASB issued Statement No. 90, *Majority Equity Interests* (“GASB 90”). GASB 90 clarifies the accounting and financial reporting requirements for a state or local government’s majority equity interest in an organization that remains legally separate after acquisition. The requirements of GASB 90 are effective for reporting periods beginning after December 15, 2018. The Corporation has not completed the process of evaluating GASB 90’s impact on its financial statements.
- In May 2019, GASB Issued Statement No. 91, *Conduit Debt Obligations* (“GASB 91”). GASB 91 is effective for reporting periods beginning after December 15, 2020. Conduit debt obligations are debt instruments issued by state and local governments to provide financing for a third party, which is primarily liable for repaying the debt instrument. GASB 91 updates Interpretation No. 2, “Disclosure of Conduit Debt Obligations,” which allowed for variations with the option for government issuers to either recognize conduit debt obligations as their own debt or to disclose them. GASB 91 addresses variation in practice by clarifying exactly what a conduit debt obligation is and eliminating the option for government issuers to recognize conduit debt obligations, thereby providing a single method of reporting. GASB 91 is not expected to have an impact on the Corporation’s financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and Cash Equivalents		
Cash	\$ 5,824,479	\$ 1,627,060
Cash Equivalents (U.S. Government Money Market Fund)	<u>-</u>	<u>5,640,562</u>
	<u>5,824,479</u>	<u>7,267,622</u>
Noncurrent Assets		
Restricted Cash and Cash Equivalents		
Cash	50,640,067	1,436,023
Cash Equivalents (U.S. Government Money Market Fund)	<u>21,521,149</u>	<u>7,432,638</u>
	<u>72,161,216</u>	<u>8,868,661</u>
Total Cash and Cash Equivalents		
Cash	56,464,546	3,063,083
Cash Equivalents (U.S. Government Money Market Fund)	<u>21,521,149</u>	<u>13,073,200</u>
	<u>\$ 77,985,695</u>	<u>\$ 16,136,283</u>

Fair Value Hierarchy

The Corporation had the following recurring fair value measurements (see Note 2H) as of June 30:

- U.S. Government money market funds of \$21,521,149 and \$13,073,200 as of June 30, 2019 and 2018, respectively, are valued based upon quoted prices in active markets (Level 1).

Investment Policy

Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, certificates of deposit and bank deposits with financial institutions that are covered by federal depository insurance, money market mutual funds, corporate and bank issued securities and commercial paper. The objective of these investments is to preserve capital, maintain liquidity and mitigate credit and interest rate risk. As of June 30, 2019 and 2018, cash and cash equivalents consisted of bank deposits and U.S. government money market mutual funds and, accordingly, the Corporation was not exposed to any interest rate or credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a depository financial institution, the Corporation may not be able to recover its deposits that are in the possession of an outside party.

The Corporation has 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 the Corporation, pursuant to the Agreement for any uninsured deposits of the Corporation.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

As of June 30, 2019, the bank deposit balances were held with six banks and amounted to \$58,052,096, of which \$2,562,494 was covered by federal depository insurance and \$26,906,053 was collateralized. The remaining balance of \$28,583,549 was uninsured and uncollateralized and exposed to custodial credit risk.

Restricted cash and cash equivalents consisted of the following as of June 30:

		<u>2019</u>		<u>2018</u>
BNYDC				
City capital funds	A	\$ 44,040,149	\$	6,402,998
Capital reserve		529,926		519,229
Other		13,878		-
		<u>44,583,953</u>		<u>6,922,227</u>
 Building 77				
Interest reserves	B	69,162		101,289
Fee and expense reserves	B	170,250		231,000
Operating and other reserves		300		300
		<u>239,712</u>		<u>332,589</u>
 Building 127				
Construction reserve	C	25,214,747		-
Fee and expense reserves	B	1,263,742		-
		<u>26,478,489</u>		<u>-</u>
 Building 128				
Lease up reserve	D	742,160		1,309,764
Fee and expense reserves	B	105,841		293,020
Operating reserve		11,061		11,061
		<u>859,062</u>		<u>1,613,845</u>
		<u>\$ 72,161,216</u>	\$	<u>8,868,661</u>

- A.** The City capital funds as of June 30, 2019 primarily consist of capital funds advanced by the City for the Sands Street Industrial Center construction project and the Steiner Naval Annex site infrastructure reconstruction project.
- B.** In accordance with the loan agreements, the Corporation was required to establish interest reserves and fee and expense reserve accounts prior to the initial release of the loans. The reserves are to be used for the payments of quarterly interest, fees and other expenses related to the loans.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

- C. The proceeds of the loans were deposited into a construction reserve for the purpose of funding development costs for the project.
- D. GMC Master Tenant was required to fund the lease-up reserve out of the capital contributions in the amount of \$3,500,000. All interest earnings on the lease-up reserve shall be retained in the account. Withdrawals from the lease-up reserve may be made to pay operating deficits. Withdrawals from the lease-up reserve shall be approved by the investor member. The lease-up reserve shall be released in increments until the master lease payment coverage ratio (operating income divided by the master lease payment for a given period) is no less than 1 to 1.

NOTE 4 – COMMUNITY DEVELOPMENT NOTES RECEIVABLE

Community development notes receivable consisted of promissory notes for loans extended to the following entities as of June 30:

<u>Borrower</u>	<u>2019</u>	<u>2018</u>
Building 128 NMTC Investment Fund LLC ("128 NMTC")	\$ 21,029,946	\$ 20,445,733
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")	14,315,970	14,315,970
Building 127 NMTC Investment Fund LLC ("127 NMTC")	<u>24,953,000</u>	<u>-</u>
	<u>\$ 76,093,099</u>	<u>\$ 50,555,886</u>

128 NMTC

On September 6, 2012, the Corporation 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 3.95% 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.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 4 – COMMUNITY DEVELOPMENT NOTES RECEIVABLE (Continued)

128 NMTC (Continued)

Interest income on the loan during the years ended June 30, 2019 and 2018, which is included in interest income in the accompanying statements of revenues, expenses and changes in net position, amounted to \$819,145 and \$796,507, respectively. Accrued interest receivable at June 30, 2019 and 2018, which is included in prepaid expenses and other current assets in the accompanying statements of net position, amounted to \$415,342 and \$403,803, respectively.

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 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, the Corporation 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, which is included in interest income in the accompanying statements of revenues, expenses and changes in net position, amounted to \$133,151 for each of the years ended June 30, 2019 and 2018, respectively. Accrued interest receivable at June 30, 2019 and 2018, which is included in prepaid expenses and other current assets in the accompanying statements of net position, amounted to \$33,288 for each year.

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 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.

77 Eastern

On May 26, 2016, the Corporation 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.

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.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – COMMUNITY DEVELOPMENT NOTES RECEIVABLE (Continued)

77 Eastern (Continued)

Interest income on the loan, which is included in interest income in the accompanying statements of revenues, expenses and changes in net position, amounted to \$54,563 for each of the years ended June 30, 2019 and 2018. Accrued interest receivable at June 30, 2019 and 2018, which is included in prepaid expenses and other current assets in the accompanying statements of net position, 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, the Corporation 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 the Navy Yard into approximately 1,000,000 square feet of office, light industrial and retail space. The loan matures on January 1, 2044 (the “Maturity Date”) and bears interest at the rate of 1.000% 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, which is included in interest income in the accompanying statements of revenues, expenses and changes in net position, amounted to \$146,341 and \$145,943 during the years ended June 30, 2019 and 2018, respectively. Accrued interest receivable at June 30, 2019 and 2018, which is included in prepaid expenses and other current assets in the accompanying statements of net position, amounted to \$36,188.

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 264-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 WICME’s interests in the CDE and certain bank accounts pursuant to various security agreements executed by 77 WICME.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 4 – COMMUNITY DEVELOPMENT NOTES RECEIVABLE (Continued)

127 NMTC

On September 21, 2018, the Corporation extended a loan to 127 NMTC in the amount of \$24,953,000. The loan bears interest at the rate of 1.00% per annum. The loan is secured by 127 NMTC's bank account pledge agreement. Commencing December 25, 2018, payments of interest only are due and payable quarterly. Commencing June 25, 2026, payments of principal and interest are due and payable quarterly in an amount to fully repay the loan by the maturity date of March 25, 2043.

Interest income on the loan, which is included in interest income in the accompanying statements of revenues, expenses and changes in net position, amounted to \$191,229 during the year ended June 30, 2019.

Maturities of Notes Receivable

The aggregate annual maturities of the notes receivable for the fiscal years ended June 30 are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal *</u>	<u>Interest *</u>	<u>Total</u>
2020	\$ -	\$ 806,581	\$ 806,581
2021	209,313	856,467	1,065,780
2022	1,476,587	926,588	2,403,175
2023	2,147,473	819,176	2,966,649
2024	2,172,546	794,103	2,966,649
2025-2029	28,630,704	3,056,927	31,687,631
2030-2034	14,662,365	1,991,098	16,653,463
2035-2039	15,516,314	1,137,846	16,654,160
2040-2044	<u>11,277,797</u>	<u>279,939</u>	<u>11,557,736</u>
	<u>\$ 76,093,099</u>	<u>\$ 10,668,725</u>	<u>\$ 86,761,824</u>

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 5 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended June 30, 2019:

	Balance 6/30/18	Additions	Dispositions/ Reclassifications	Balance 6/30/19
Nondepreciable:				
Construction in progress	\$ 1,472,671	\$ 70,738,433	\$ 32,416,910	\$ 39,794,194
Total nondepreciable capital assets	<u>1,472,671</u>	<u>70,738,433</u>	<u>32,416,910</u>	<u>39,794,194</u>
Depreciable:				
Leasehold improvements, including buildings and water and sewer systems	709,833,435	32,416,910	-	742,250,345
Machinery and vehicles	4,015,321	369,713	-	4,385,034
Office equipment	1,863,598	442,264	-	2,305,862
Total depreciable capital assets	<u>715,712,354</u>	<u>33,228,887</u>	<u>-</u>	<u>748,941,241</u>
Less: accumulated depreciation:				
Leasehold improvements, including buildings and water and sewer systems	199,083,824	26,298,201	-	225,382,025
Machinery and vehicles	2,331,850	791,716	-	3,123,566
Office equipment	1,645,815	150,562	-	1,796,377
Total accumulated depreciation	<u>203,061,489</u>	<u>\$ 27,240,479</u>	<u>\$ -</u>	<u>230,301,968</u>
Total net depreciable capital assets	<u>512,650,865</u>			<u>518,639,273</u>
Total net capital assets	<u>\$ 514,123,536</u>			<u>\$ 558,433,467</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 5 – CAPITAL ASSETS (Continued)

The following is a summary of capital asset activity for the year ended June 30, 2018:

	<u>Balance 6/30/17</u>	<u>Additions</u>	<u>Dispositions/ Reclassifications</u>	<u>Balance 6/30/18</u>
Nondepreciable:				
Construction in progress	\$ -	\$ 1,472,671	\$ -	\$ 1,472,671
Total nondepreciable capital assets	<u>-</u>	<u>1,472,671</u>	<u>-</u>	<u>1,472,671</u>
Depreciable:				
Leasehold improvements, including buildings and water and sewer systems	674,144,038	35,689,397	-	709,833,435
Machinery and vehicles	2,095,382	1,919,939	-	4,015,321
Office equipment	<u>1,646,136</u>	<u>217,462</u>	<u>-</u>	<u>1,863,598</u>
Total depreciable capital assets	<u>677,885,556</u>	<u>37,826,798</u>	<u>-</u>	<u>715,712,354</u>
Less: accumulated depreciation:				
Leasehold improvements, including buildings and water and sewer systems	174,501,388	24,582,436	-	199,083,824
Machinery and vehicles	1,869,640	462,210	-	2,331,850
Office equipment	<u>1,535,192</u>	<u>110,623</u>	<u>-</u>	<u>1,645,815</u>
Total accumulated depreciation	<u>177,906,220</u>	<u>\$ 25,155,269</u>	<u>\$ -</u>	<u>203,061,489</u>
Total net depreciable capital assets	<u>499,979,336</u>			<u>512,650,865</u>
Total net capital assets	<u>\$ 499,979,336</u>			<u>\$ 514,123,536</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 6 – UNEARNED REVENUES

Unearned revenues consisted of the following at June 30:

	<u>2019</u>		<u>2018</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Current with the City for the rehabilitation of capital assets	\$ 44,029,037	\$ -	\$ 4,640,805	\$ -
WeWork/Boston Properties, LLC	-	-	271,752	-
Grants	-	-	99,300	-
HITN	-	-	1,500,000	-
FC Modular	948,837	395,348	-	-
Cogeneration Partners	11,112	-	-	263,870
Other	11,475	-	139,566	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ <u>45,000,461</u>	\$ <u>395,348</u>	\$ <u>6,651,423</u>	\$ <u>263,870</u>

NOTE 7 – LONG-TERM LIABILITIES

The following summarizes the changes in the Corporation's long-term liabilities for the year ended June 30, 2019:

	(Restated) Balance 6/30/2018	<u>Increases</u>	<u>Reductions</u>	Balance 6/30/2019	Due Within One Year	Due After One Year
Tenant's security deposits	\$ 7,518,551	\$ 627,484	\$ -	\$ 8,146,035	\$ -	\$ 8,146,035
Unearned revenue	6,915,293	38,480,516	-	45,395,809	45,000,461	395,348
Development loans payable	134,430,000	24,416,160	1,070,630	157,775,530	7,143,609	150,631,921
Community development notes payable	66,220,000	35,330,000	-	101,550,000	-	101,550,000
Construction loan payable	8,773,167	-	1,402,873	7,370,294	1,502,942	5,867,352
Other long-term liabilities	869,654	1,016,196	-	1,885,850	-	1,885,850
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term liabilities	\$ <u>224,726,665</u>	\$ <u>99,870,356</u>	\$ <u>2,473,503</u>	\$ <u>322,123,518</u>	\$ <u>53,647,012</u>	\$ <u>268,476,506</u>

The following summarizes the changes in the Corporation's long-term liabilities for the year ended June 30, 2018:

	Balance 6/30/2017	<u>Increases</u>	<u>Reductions</u>	(Restated) Balance 6/30/2018	Due Within One Year	Due After One Year
Tenant's security deposits	\$ 6,285,261	\$ 1,233,290	\$ -	\$ 7,518,551	\$ -	\$ 7,518,551
Unearned revenue	5,326,679	1,588,614	-	6,915,293	6,651,423	263,870
Development loans payable	134,430,000	-	-	134,430,000	1,205,242	133,224,758
Community development notes payable	66,220,000	-	-	66,220,000	-	66,220,000
Construction loan payable	12,514,487	-	3,741,320	8,773,167	1,347,951	7,425,216
Other long-term liabilities	-	869,654	-	869,654	-	869,654
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total long-term liabilities	\$ <u>224,776,427</u>	\$ <u>3,691,558</u>	\$ <u>3,741,320</u>	\$ <u>224,726,665</u>	\$ <u>9,204,616</u>	\$ <u>215,522,049</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 8 – DEVELOPMENT LOANS PAYABLE

Development loans payable consisted of the following as of June 30:

<u>Lender</u>	<u>2019</u>	<u>2018</u>
NYCRC Brooklyn Navy Yard Development Fund, LLC ("NYCRC \$42,000,000 Loan")	\$ 42,000,000	\$ 42,000,000
NYCRC Brooklyn Navy Yard Development Fund, IV, LLC ("NYCRC \$30,000,000 Loan")	30,000,000	30,000,000
Sterling National Bank ("Sterling Loan")	30,541,987	30,750,000
Symetra Life Insurance Company ("Symetra Loan")	30,817,383	31,680,000
Building 127:		
GSUIG Real Estate Member LLC	17,844,500	-
Local Initiatives Support Corporation ("LISC")	5,063,125	-
GSUIG Real Estate Member LLC Line of Credit	1,008,535	-
Sterling National Bank Line of Credit	<u>500,000</u>	<u>-</u>
	<u>\$ 157,775,530</u>	<u>\$ 134,430,000</u>

NYCRC \$42,000,000 Loan

On July 26, 2012, the Corporation 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 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 incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$1,277,500 for each of the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$0 and \$322,000, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

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, the Corporation 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 the Corporation'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 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.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 8 – DEVELOPMENT LOANS PAYABLE (Continued)

NYCRC \$30,000,000 Loan

On July 15, 2015, the Corporation 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 loan is 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 4.2% 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 consist of interest only, payable quarterly, on the outstanding balance until the maturity date at which time principal is payable.

Interest incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$1,277,500 and \$1,280,078 during the years ended June 30, 2019 and 2018, respectively.

The loans are collateralized by an assignment of certain deposit account with a bank, the Corporation’s interest in a contribution agreement with Building 77 QALICB, and, subject to certain subordination and inter-creditor agreements, the Corporation’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 the Corporation’s NYCRC \$60,000,000 Loan and pay for the closing costs.

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 incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$1,385,175 and \$1,386,757 during the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$0 and \$56,990, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

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 the Corporation’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 the Corporation; and (iv) and mortgage of such premises to Sterling.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 8 – DEVELOPMENT LOANS PAYABLE (Continued)

Symetra Loan

On December 22, 2016, BNY Waterfront received a loan under a real estate note (the “Note”) 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 note 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 Note.

Interest incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$1,298,397 and \$1,314,720 during the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$0 and \$54,780, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

The loan is collateralized by a security instrument executed by BNY Waterfront and the Corporation, 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 the Corporation (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 the Corporation, NYCRC LLC subordinates its NYCRC \$42,000,000 Loan and underlying loan documents to the Symetra Loan and underlying security documents.

GSUIG Real Estate Member LLC

On September 21, 2018 the Corporation entered into a promissory note with GSUIG Real Estate Member LLC in the amount of \$17,844,500. The loan is secured by the assets of the Corporation. The note bears interest at a rate of 6.5% per annum. Quarterly payments of interest only are due commencing on December 31, 2018. Beginning March 21, 2021 quarterly payments of principal and interest of \$400,181 will be due through maturity on March 31, 2026. Interest incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$902,139 during the year ended June 30, 2019.

Local Initiatives Support Corporation (Bridge Loan)

On September 21, 2018, the Corporation entered into a promissory note with Local Initiatives Support Corporation in the amount of \$5,063,125. The loan is secured by the assets of the Corporation. The note bears interest at a rate of 5.00% per annum. Quarterly payments of interest only are due commencing on October 1, 2018. The loan matures on September 21, 2021 at which time all remaining principal and interest will be due. Interest incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$198,306 during the year ended June 30, 2019.

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NOTE 8 – DEVELOPMENT LOANS PAYABLE (Continued)

GSUIG Real Estate Member LLC (Line of Credit)

On September 21, 2018, the Corporation entered into a line of credit note with GSUIG Real Estate Member LLC. The loan agreement provides for up to \$5,000,000 and is secured by the assets of the Corporation. The loan bears an interest rate of 6.50% per annum. In addition, the note bears interest of 0.75% per annum on the undrawn portion of the loan. The terms of the note provide for quarterly payments of interest only commencing on September 30, 2018. Beginning March 21, 2021 and on every June 30, September 30, December 31, and March 31 thereafter, quarterly payments of principal and interest will be due through maturity on September 21, 2022. Interest incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$45,355 during the year ended June 30, 2019.

Sterling National Bank Line of Credit

On October 25, 2017, the Corporation entered into a revolving line of credit agreement with Sterling National Bank in the amount of \$5,000,000. On February 25, 2019, the Corporation amended this line of credit agreement to increase the maximum borrowing amount to \$10,000,000. The proceeds of the line of credit shall be used by the Corporation solely for working capital purposes, including to finance tenant improvements, to bridge projects to be funded by the City until such funds are received, and other general corporate purposes of the Corporation. Such borrowings are secured by the assets of the Corporation. Interest on the unpaid principal amount is charged at a rate per annum equal to the greater of (i) the prime rate plus 0.25% or (ii) 4.00%. The unpaid principal amount of the Revolving Loans and all interest accrued thereon and costs and expenses then due and owing in a single installment on the maturity date of February 28, 2021. As of June 30, 2019 and 2018, the outstanding borrowings on the line of credit amounted to \$500,000 and \$0, respectively. Interest incurred on the loan, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$8,625 during the year ended June 30, 2019.

Maturities of Development Loans Payable

The aggregate annual principal and interest due on the development loans payable, 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 for the years ended June 30:

<u>Fiscal Year Ending</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
June 30						
2020	\$	7,143,609	\$	6,534,113	\$	13,677,722
2021		43,988,930		5,093,925		49,082,855
2022		32,198,778		4,780,784		36,979,562
2023		3,313,811		3,501,786		6,815,597
2024		2,413,632		3,393,430		5,807,062
2025-2029		26,671,437		11,625,654		38,297,091
2030-2034		33,205,119		5,339,489		38,544,608
2035-2039		8,840,214		777,599		9,617,813
	\$	<u>157,775,530</u>	\$	<u>41,046,780</u>	\$	<u>198,822,310</u>

The Corporation's loan agreements include provisions that in the event of payment or other material defaults, which are not cured within any applicable cure periods, that the respective lenders may accelerate and declare the remaining unpaid debt to be immediately due and payable.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE

Community development notes payable represent promissory notes issued by GMC Landlord, Building 77 QALICB and 127 QALICB to the following community development entities (“CDE Lenders”) and consisted of the following as of June 30:

<u>BNYDC Entity/CDE Lender</u>	<u>2019</u>	<u>2018</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>
Building 77 QALICB promissory notes dated December 22, 2014 ("Building 77 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 XXIV")</i>		
DVCI XXIV Loan A	6,888,931	6,888,931
DVCI XXIV Loan B	2,811,069	2,811,069
	<u>14,700,000</u>	<u>14,700,000</u>
Building 77 QALICB promissory notes dated May 26, 2016 ("Building 77 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>

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NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE (Continued)

<u>BNYDC Entity/CDE Lender</u>	<u>2019</u>	<u>2018</u>
127 QALICB promissory notes dated September 21, 2018 ("127 2018 Notes")		
GSNMF Sub-CDE 29 LLC ("GSNMF-29")		
GSNMF-29 Loan A	\$ 3,364,306	\$ -
GSNMF-29 Loan B	1,635,694	-
CDE 41 LLC ("MBS")		
MBS Loan A	4,780,028	-
MBS Loan B	2,079,972	-
NYCR SUB-CDE 1, LLC ("NYCR")		
NYCR Loan A	8,524,333	-
NYCR Loan B	3,235,667	-
NYCNCC Sub-CDE 5, LLC ("NYCNCC")		
NYCNCC Loan A	4,920,028	-
NYCNCC Loan B	1,939,972	-
DVCI CDE XLIV, LLC ("DVCI XLIV")		
DVCI XLIV Loan A	3,364,305	-
DVCI XLIV Loan B	1,485,695	-
	<u>35,330,000</u>	<u>-</u>
	<u>\$ 101,550,000</u>	<u>\$ 66,220,000</u>

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 incurred on the GMC Notes, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$364,800 and \$243,200 during the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$121,600 and \$141,867, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE (Continued)

The aggregate annual principal and interest due on the GMC Notes is as follows for the years ended June 30:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
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
2024	970,331	214,663	1,184,994
2025-2029	4,999,161	925,809	5,924,970
2030-2034	5,254,169	670,801	5,924,970
2035-2039	5,522,184	402,786	5,924,970
2040-2044	4,720,425	114,455	4,834,880
	<u>\$ 24,320,000</u>	<u>\$ 3,272,966</u>	<u>\$ 27,592,966</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 years ended June 30, 2019 and 2018, ESNMC and ERF asset management fees totaled \$323,098 and \$127,000, respectively.

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 years ended June 30, 2019 and 2018, ESNMC and ERF CDE expense reimbursements totaled \$25,000.

Building 77 2014 Notes

On December 22, 2014, Building 77 QALICB entered into a loan agreement with GSNMF-17 and DVCI XXIV 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 notes 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 XXIV Loan A; and \$29,033 for DVCI XXIV Loan B.

Interest incurred on the Building 77 2014 Notes, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$147,000 for each of the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$0 and \$36,750, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE (Continued)

Building 77 2014 Notes (Continued)

In accordance with the Corporation's loan agreement, DVCI SSIV 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 XXIV loan. For the years ended June 30, 2019 and 2018, DVCI XXIV asset management fees of \$50,000 have been incurred and paid.

In accordance with the Corporation's loan agreement, an audit and tax expense reimbursement to DVCI XXIV equal to \$10,570 is due annually from the DVCI XXIV Fee Reserve, commencing on November 15, 2012 and continuing for the term of the DVCI XXIV loan. For the years ended June 30, 2019 and 2018, DVCI XXIV asset management fees of \$10,570 have been incurred and paid.

The aggregate annual principal and interest due on the Building 77 2014 Notes is as follows for the years ended June 30:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30			
2020	\$ -	\$ 147,000	\$ 147,000
2021	-	147,000	147,000
2022	115,071	147,000	262,071
2023	463,166	144,116	607,282
2024	467,815	139,467	607,282
2025-2029	2,410,463	625,949	3,036,412
2030-2034	2,533,892	502,520	3,036,412
2035-2039	2,663,641	372,771	3,036,412
2040-2044	2,800,034	236,378	3,036,412
2045-2049	2,943,411	93,001	3,036,412
2050-2054	302,507	1,135	303,642
	<u>\$ 14,700,000</u>	<u>\$ 2,556,337</u>	<u>\$ 17,256,337</u>

Building 77 2016 Notes

On May 26, 2016, Building 77 QALICB entered into separate loan agreements with GSNMF-21 and BRP to finance rehabilitation of improvements to in Building 77. The loan mortgages are collateralized by the building of the Corporation and consists of four promissory notes as listed above. The GSNMF-21 promissory notes bear interest at .855% per annum and BRP promissory notes bear interest at .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 Building 77 2016 Notes, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$238,128 for each of the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$0 and \$59,532, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

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JUNE 30, 2019 AND 2018

NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE (Continued)

Building 77 2016 Notes (Continued)

In accordance with the Corporation's loan agreement, BRP CDE, LLC ("Allocatee") earns a management fee in the amount of \$250,000 which is payable in installments commencing on May 26, 2016. The final installment is due on May 26, 2019. For the years ended June 30, 2019 and 2018, Allocatee management fees of \$13,805 and \$78,732 have been incurred and paid.

The aggregate annual principal and interest due on the Building 77 2016 Notes is as follows for the years ended June 30:

<u>Fiscal Year Ending</u>		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
<u>June 30</u>						
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
2024		879,412		225,717		1,105,129
2025-2029		4,514,286		1,011,357		5,525,643
2030-2034		4,716,052		809,590		5,525,642
2035-2039		4,926,838		598,804		5,525,642
2040-2044		5,147,048		378,594		5,525,642
2045-2049		5,377,103		148,539		5,525,642
2050-2054		550,756		1,809		552,565
	\$	<u>27,200,000</u>	\$	<u>4,122,168</u>	\$	<u>31,322,168</u>

127 2018 Notes

On September 21, 2018, the 127 QALICB entered into promissory note agreements with GSNMF Sub-CDE 29 LLC ("GSNMF"), CDE 41, LLC ("MBS"), NYCR SUB-CDE 1, LLC ("NYCR"), NYCNCC Sub-CDE 5, LLC ("NYCNCC"), DVCI CDE XLIV, LLC ("DVCI XLIV"), totaling \$35,330,000. The promissory note agreements comprise ten obligations and are secured by the property.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with GSNMF, referred to as GSNMF Loan A, on September 21, 2018 in the amount of \$3,364,306. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. Beginning on March 15, 2026, a one-time payment of \$2,140,860 is due to GSNMF. Beginning June 15, 2026, quarterly principal and interest payments totaling \$12,849, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with GSNMF, referred to as GSNMF Loan B, on September 21, 2018 in the amount of \$1,635,694. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$17,178, are due until the loan matures on September 20, 2053.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE (Continued)

127 2018 Notes (Continued)

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with MBS, referred to as MBS Loan A, on September 21, 2018 in the amount of \$4,780,028. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. On March 15, 2026, a one-time payment of \$2,997,204 is due to MBS. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$18,723, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with MBS, referred to as MBS Loan B, on September 21, 2018 in the amount of \$2,079,972. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$21,844, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with NYCR, referred to as NYCR QLICI Loan A, on September 21, 2018 in the amount of \$8,524,333. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. On March 15, 2026, a one-time payment of \$5,138,064 is due to MBS. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$35,563, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with NYCR, referred to as NYCR QLICI Loan B, on September 21, 2018 in the amount of \$3,235,667. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$33,981, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with NYCNCC, referred to as NYCNCC QLICI Loan A, on September 21, 2018 in the amount of \$4,920,028. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. On March 15, 2026, a one-time payment of \$2,997,204 is due to NYCNCC. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$20,194, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with NYCNCC, referred to as NYCNCC QLICI Loan B, on September 21, 2018 in the amount of \$1,939,972. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$20,374, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement, 127 QALICB entered into a promissory note agreement with DVCI XLIV, referred to as DVCI XLIV QLICI Loan A, on September 21, 2018 in the amount of \$3,364,305. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. On March 15, 2026, a one-time payment of \$2,140,860 is due to DVCI XLIV. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$12,849, are due until the loan matures on September 20, 2053.

In accordance with the loan agreement 127 QALICB entered into a promissory note agreement with DVCI XLIV, referred to as DVCI XLIV QLICI Loan B, on September 21, 2018 in the amount of \$1,485,695. The terms of the note provide for quarterly interest only payments beginning December 15, 2018 at a rate of 1.067% per annum. Beginning on June 15, 2026, quarterly principal and interest payments totaling \$15,603 are due until the loan matures on September 20, 2053.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTE 9 – COMMUNITY DEVELOPMENT NOTES PAYABLE (Continued)

Interest incurred on the 127 2018 Notes, which was capitalized into leasehold improvements, amounted to \$313,198 for the year ended June 30, 2019.

The aggregate annual principal and interest due on the 127 2018 Notes is as follows for the years ended June 30:

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2020	\$ -	\$ 377,054	\$ 377,054
2021	-	377,054	377,054
2022	-	377,054	377,054
2023	-	377,054	377,054
2024	-	377,054	377,054
2025-2029	17,798,734	1,224,156	19,022,890
2030-2034	3,331,328	851,853	4,183,181
2035-2039	3,513,672	669,508	4,183,180
2040-2044	3,705,994	477,181	4,183,175
2045-2049	3,908,850	274,326	4,183,176
2050-2054	3,071,422	65,906	3,137,328
	<u>\$ 35,330,000</u>	<u>\$ 5,448,200</u>	<u>\$ 40,778,200</u>

The Corporation's loan agreements include provisions that in the event of payment or other material defaults, which are not cured within any applicable cure periods, that the respective lenders may accelerate and declare the remaining unpaid debt to be immediately due and payable.

NOTE 10 – CONSTRUCTION LOAN PAYABLE

On April 2, 2015, GMC Landlord entered into a loan agreement with New Lab, LLC in the amount of \$11,884,883. The loan accrues interest at 2.44% from the date of the initial advance through maturity, on the tenth anniversary of the first monthly payment. Monthly payments commence on the conversion date, March 1, 2017. Interest is compounded monthly from the date of the first advance through the conversion date. On the date of conversion, the loan balance was increased to \$13,744,373 including compounded interest. Beginning March 1, 2017, monthly payments of \$129,193 are due through maturity. The loan is secured by the tenant fit-out payments portion of the master lease rent payable to GMC Landlord by New Lab under its lease. It is further collateralized by any accounts arising under the master lease, the deposit account, which holds loan advances and master lease rents, and an Assignment of Leases and Rents to GMC Landlord.

The Corporation's loan agreements include provisions that in the event of payment or other material defaults, which are not cured within any applicable cure periods, that the respective lenders may accelerate and declare the remaining unpaid debt to be immediately due and payable.

Interest incurred on the construction loan payable, which is included in interest expense in the accompanying statements of revenues, expenses and changes in net position, amounted to \$110,384 and \$197,778 during the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, there was accrued interest of \$14,986 and \$17,963, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of net position.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 – CONSTRUCTION LOAN PAYABLE (Continued)

The aggregate annual principal and interest due on the construction loan payable is as at June 30:

<u>Fiscal Year Ending</u>			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,502,942	\$ 161,586	\$ 1,664,528
2021	1,423,001	127,320	1,550,321
2022	1,458,114	92,207	1,550,321
2023	1,494,092	56,229	1,550,321
2024	1,492,145	19,362	1,511,507
	<u>\$ 7,370,294</u>	<u>\$ 456,704</u>	<u>\$ 7,826,998</u>

NOTE 11 – CAPITAL CONTRIBUTIONS AND GRANTS

City Capital Contributions

Since 1996, the Corporation receives contributions from the City for the replacement and rehabilitation of capital assets funded from the City's capital budget. For the years ended June 30, 2019 and 2018, the Corporation recognized \$46,477,746 and \$11,734,373, respectively, as non-operating revenue for rehabilitation work completed with City capital funds.

Other Capital Grants

During the years ended June 30, 2019 and 2018, the Corporation received capital funds of \$4,016,937 and \$4,684,753, respectively, from the Empire State Development Corporation and other grantors to facilitate improvements to the Navy Yard.

NOTE 12 – LEASES WITH TENANTS

The Corporation has lease commitments from over 350 commercial tenants for space for periods ranging from one to thirty-nine years. Minimum future rental income from those leases is as follows for the years ended June 30:

2020	\$ 44,053,993
2021	41,109,208
2022	36,976,282
2023	33,507,305
2024	30,417,382
2025-2029	131,222,639
2030-2034	101,135,077
2035-2039	84,669,768
2040-2044	55,077,378
2045-2049	32,716,719
2050-2054	23,705,792
2055-2059	13,112,286
	<u>\$ 627,703,829</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 – LEASES WITH TENANTS (Continued)

Total contingent rentals, which arise primarily from a percentage of the lessees' gross revenues and parking revenue rents, amounted to \$2,139,981 and \$1,202,006 for the years ended June 30, 2019 and 2018, respectively.

Leased buildings and improvements had asset costs of \$742,250,345, accumulated depreciation of \$225,382,025, and carrying costs of \$516,868,320 as of June 30, 2019. Leased buildings and improvements had asset costs of \$709,833,435, accumulated depreciation of \$199,083,824, and carrying costs of \$510,749,611 as of June 30, 2018.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Corporation 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 the Corporation's financial statements.

The Corporation is required to comply with various rules and regulations of the New Markets Tax Credits ("NMTC") program pursuant to Section 45D of the Code. Failure to comply with these or other requirements could result in the recapture of NMTC already taken by the Corporation's mortgage lenders and potential loss of future NMTCs.

NOTE 14 – PENSION PLANS

The Corporation's non-union administrative employees are eligible to participate in the Brooklyn Navy Yard Corp. Pension Plan, a defined contribution pension plan administered by Voya Financial. Participation begins after the completion of six (6) months' continuous employment with the Corporation. Voluntary employee contributions to this plan are not permitted. Participants are fully vested in employer contributions to this plan after three (3) years of service. Plan forfeitures are used to either reduce administrative expenses of the plan or employer contributions to the plan. For the years ended June 30, 2019 and 2018, contributions of 14% of eligible compensation were made to this plan. Pension expense for the years ended June 30, 2019 and 2018 amounted to \$1,037,034 and \$993,720, respectively.

The Corporation has also established the Brooklyn Navy Yard Security Guards Pension Plan, a defined contribution profit-sharing plan administered by Voya Financial. Only employees that are covered by the Corporation's collective bargaining agreement with its security guards are eligible to participate in this plan. Participation begins after the completion of six (6) months' continuous employment with the Corporation. Voluntary employee contributions to this plan are not permitted. Participants are fully vested in employer contributions to this plan after three (3) years of service. Plan forfeitures are used to either reduce administrative expenses of the plan or employer contributions to the plan. For the years ended June 30, 2019 and 2018, discretionary profit-sharing contributions of \$1.50 per hour (to a maximum of 80 hours) and \$1 per hour (to a maximum of 80 hours) per pay period were made to this plan. Pension expense for the years ended June 30, 2019 and 2018 amounted to \$161,772 and \$113,188, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 15 – PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2019, a prior period adjustment was recorded by management for a correction of an error for revenues and expenses recognized in the incorrect period and to properly account for net position in accordance with Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The overall effect of the restatements on the prior year financial statements as of July 1, 2018 is as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>Restated</u>
Current assets:			
Grants receivable	\$ 4,954,959	\$ 4,043,276	\$ 8,998,235
Total current assets	<u>\$ 15,609,588</u>	<u>\$ 4,043,276</u>	<u>\$ 19,652,864</u>
Noncurrent assets:			
Lease assets	\$ 5,077,414	\$ 3,042,651	\$ 8,120,065
Deferred cost	202,533	(202,533)	-
Capital assets, net	<u>513,508,844</u>	<u>614,692</u>	<u>514,123,536</u>
Total noncurrent assets	<u>\$ 585,731,889</u>	<u>\$ 3,454,810</u>	<u>\$ 589,186,699</u>
Current liabilities:			
Accounts payable and accrued expenses	\$ 6,849,044	\$ (1,214,586)	\$ 5,634,458
Development loans payable	-	1,205,242	1,205,242
Construction loan payable	<u>-</u>	<u>1,347,951</u>	<u>1,347,951</u>
Total current liabilities	<u>\$ 13,500,467</u>	<u>\$ 1,338,607</u>	<u>\$ 14,839,074</u>
Noncurrent liabilities:			
Development loans payable	\$ 132,787,050	\$ 437,708	\$ 133,224,758
Community development notes payable	64,023,654	2,196,346	66,220,000
Construction loan payable	8,501,339	(1,076,123)	7,425,216
Other long-term liabilities	<u>-</u>	<u>869,654</u>	<u>869,654</u>
Total noncurrent liabilities	<u>\$ 213,094,464</u>	<u>\$ 2,427,585</u>	<u>\$ 215,522,049</u>
Net position	<u>\$ 374,746,546</u>	<u>\$ 3,731,894</u>	<u>\$ 378,478,440</u>
Operating expenses	<u>\$ 66,834,599</u>	<u>\$ (1,234,303)</u>	<u>\$ 65,600,296</u>
Operating loss	<u>\$ (15,645,283)</u>	<u>\$ 1,234,303</u>	<u>\$ (14,410,980)</u>
Capital grants	<u>\$ 1,241,477</u>	<u>\$ 3,443,276</u>	<u>\$ 4,684,753</u>
Change in net position	<u>\$ (8,117,120)</u>	<u>\$ 4,677,579</u>	<u>\$ (3,439,541)</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPERTY MANAGEMENT REVENUE AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>(Restated) 2018</u>
OPERATING REVENUES	\$ 60,715,236	\$ 51,189,316
EXPENSES		
Direct expenses		
Utilities		
Electric	5,382,881	5,044,533
Steam	1,835,243	1,249,532
Water	719,400	633,258
Payroll and related fringe benefits		
Protective services and transportation	3,813,842	3,522,035
Maintenance, utilities and engineering	5,929,822	4,299,134
Fringe benefits	4,302,588	3,802,232
Other direct expenses		
Materials, supplies and building maintenance	4,780,833	4,026,734
Events, programs and exhibits	312,806	308,266
Property insurance	2,155,848	1,928,170
Brokerage and leasing	1,514,745	448,475
Provision for doubtful accounts	566,390	117,684
Total direct expenses	<u>31,314,398</u>	<u>25,380,053</u>
Operating income, net of direct expenses	<u>29,400,838</u>	<u>25,809,263</u>
General and administrative expenses		
Personnel and fringe benefits	8,424,279	7,710,138
Other	7,335,521	5,298,688
Total general and administrative expenses	<u>15,759,800</u>	<u>13,008,826</u>
Operating income before depreciation and and amortization and non-operating income (expense)	<u>13,641,038</u>	<u>12,800,437</u>
DEPRECIATION AND AMORTIZATION AND NON-OPERATING INCOME (EXPENSE)		
Depreciation and amortization	(28,791,147)	(27,211,418)
Interest income	1,654,767	1,255,460
Interest expense	(8,278,630)	(6,703,147)
Financing costs incurred	(3,016,565)	-
Net depreciation and amortization and non-operating income (expense)	<u>(38,431,575)</u>	<u>(32,659,105)</u>
Loss before capital contributions	<u>\$ (24,790,537)</u>	<u>\$ (19,858,668)</u>

See independent auditors' report.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF NEW YORK)
SUPPLEMENTARY INFORMATION
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>(Restated) 2018</u>
PERSONNEL AND FRINGE BENEFIT EXPENSES		
Executive and legal	\$ 1,872,982	\$ 1,441,506
Finance and leasing	1,470,322	1,332,964
Human resources	210,208	390,198
Development and external affairs	1,054,512	1,057,277
Technology and information	258,122	279,581
Building 92 and employment center	905,031	703,212
Payroll taxes and fringe benefits	<u>2,653,102</u>	<u>2,534,822</u>
Total personnel and fringe benefits	8,424,279	7,739,560
Less: payroll and related costs capitalized	<u>-</u>	<u>(29,422)</u>
Net personnel and fringe benefit expenses	<u>8,424,279</u>	<u>7,710,138</u>
OTHER EXPENSES		
Legal	585,318	747,450
Audit and tax fees	168,135	139,711
Computer contract and supplies	1,708,185	917,971
Postage	27,790	17,045
Communication	192,744	173,747
Director's liability insurance	26,262	13,183
Corporate	206,518	159,292
Board	1,127	6,916
Community employment	337,970	331,441
Advertising and marketing	230,409	579,804
Stationery and office supplies	156,245	90,534
Consultants	1,374,037	890,035
Gasoline	149,735	124,119
Vehicle repairs and maintenance	516,529	440,327
Payroll processing	77,928	90,403
Education and training	171,895	175,908
State and local taxes	273,579	201,512
Asset management fee	458,403	205,000
Management fee	146,179	-
Miscellaneous	<u>526,533</u>	<u>152,964</u>
Total other expenses	7,335,521	5,457,362
Less: other expenses capitalized	<u>-</u>	<u>(158,674)</u>
Net other expenses	<u>7,335,521</u>	<u>5,298,688</u>
Total general and administrative expenses	<u><u>\$ 15,759,800</u></u>	<u><u>\$ 13,008,826</u></u>

See independent auditors' report.