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

CONSOLIDATED FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION YEARS ENDED JUNE 30, 2017 AND 2016

WITH INDEPENDENT AUDITOR'S REPORT

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(A component of The City of New York)
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Deans • Archer & Co.

CERTIFIED PUBLIC ACCOUNTANTS

265 East Merrick Road - Suite 205
Valley Stream, New York 11580
(516) 872-6922/FAX: (516) 872-6925
EMAIL: deansarcher@deansarcher.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Brooklyn Navy Yard Development Corporation, ("BNYDC"), (A component of The City of New York), as of and for the years ended June 30, 2017 and 2016, and the related notes to the consolidated financial statements, which collectively comprise of BNYDC's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brooklyn Navy Yard Development Corporation as of June 30, 2017 and 2016, and the consolidated changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Generally accepted accounting principles United States of America require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise BNYDC's basic financial statements. The schedule of property management revenue and expenses and schedules of general and administrative expenses for the years ended June 30, 2017 and 2016 collectively are presented for purpose of additional analysis and are not required as part of the basic financial statements.

The schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of property management revenue and expenses and schedules of general and administrative expenses for the years ended June 30, 2017 and 2016 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government *Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September xx, 2017 on our consideration of BNYDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting on or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BNYDC's internal control over financial reporting and compliance.

Deans Archer & Co

Valley Stream, New York
September 7, 2017

This section of the Brooklyn Navy Yard Development Corporation's, ("BNYDC"), (A component of The City of New York) annual financial report presents our management analysis of BNYDC's financial performance during the fiscal year that ended on June 30, 2017 and 2016. It should be read in conjunction with BNYDC's financial statements and accompanying notes.

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

Organization Overview

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

FINANCIAL HIGHLIGHTS

Current and Noncurrent Assets

As of June 30, 2017, BNYDC had current assets of $26,706,559 consisting of cash and cash equivalents of $22,925,617, accounts and grants receivable of $2,662,557, and prepaid expenses and other current assets of $1,118,385.

FINANCIAL HIGHLIGHTS *(continued)*

Current Assets	2017	2016	2015	% Change 2017-2016
Cash and Cash Equivalents	$ 22,925,617	$ 24,678,060	$ 11,223,504	-7%
Accounts Receivable	1,134,172	695,799	294,223	63%
Grant Reveivable	1,528,385	1,708,923	6,042,404	-11%
Prepaid Expenses and Other Current Assets	1,118,385	1,118,873	1,177,469	0%
	$ 26,706,559	$ 28,201,655	$ 18,737,600	-5%

The cash and cash equivalents decreased $1.8 million or 7%, primarily the result of decrease in the accounts payable and accrued expenses. The accounts receivable increased $0.4 million or 63% the result of long term payout agreements with a few tenants. Grants receivable consist of capital funds due from the City of New York for several projects on the yard.

Noncurrent Assets

The following table summarizes BNYDC's noncurrent assets for the year ended June 30, 2017, 2016 and 2015 and the percentage changes between June 30, 2017 and 2016.

	2017	2016	2015	% Change 2017-2016
Restricted Cash and Cash Equivalents	$ 30,316,580	$ 38,049,501	$ 47,437,603	-20%
Tenants' Security Deposits	6,285,261	5,399,924	4,588,669	16%
Community Development Notes Receivable	49,993,872	49,453,214	28,025,361	1%
Deferred Rent Assets	4,402,847	-	-	-
Capital Assets	499,979,336	434,231,157	354,927,003	15%
	$ 590,977,896	$ 527,133,796	$ 434,978,636	12%

As of June 30, 2017, BNYDC had noncurrent assets of $590,977,896 consisting of restricted cash and cash equivalents of $30,316,580, tenants' security deposits of $6,285,261, community development notes receivable of $49,993,872, deferred rent assets of $4,402,847, and capital assets of $499,979,336. BNYDC's restricted cash and cash equivalents are comprised of the cash reserved for the construction projects.

The capital assets are comprised of improvements to the land and buildings, office equipment, and auto, truck and machinery. The capital assets increased $66 million or 15%, resulted mainly from the capital investments made in the waterfront, the electric distribution system, buildings and equipment.

Current and Noncurrent Liabilities

Current liabilities of $19,780,309 were recorded as of June 30, 2017, a decrease of $4.5 million or 19%, the result of decrease in the accounts payable and accrued expenses and unearned revenue. Noncurrent liabilities of $215,040,480 were recorded as of June 30, 2017, an increase of $30 million or 17%, the result of $30 million development loan from NYC Regional Center for the building 77 construction project.

Statement of Revenue and Expense Analysis

The following table summarizes BNYDC's change in net position for the fiscal years ended June 30, 2017, 2016 and 2015 and the percentage changes between fiscal years 2017 and 2016.

	2017	2016	2015	% Change 2017-2016
Rent Revenue	$ 31,370,653	$ 29,020,570	$ 28,051,112	8%
Total Operating Revenues	39,122,920	36,250,591	35,268,736	8%
Utilities	5,494,813	5,860,208	5,625,723	-6%
Total Operating Expenses	49,771,252	46,747,268	44,603,994	6%
Operating Loss	(10,648,332)	(10,496,677)	(9,335,258)	1%
Change in Net Position	35,955,792	59,198,308	12,268,883	-39%

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

FINANCIAL HIGHLIGHTS *(continued)*

Revenue

The demand for industrial space continued to be strong during fiscal year 2017. BNYDC realized an increase in rent revenues of 83% mainly as a result of higher base payments due to lease renewals and tenant turnover. During the fiscal year 2017, the total operating revenues increased $3 million or 8% primarily due to the $2 million increase in rent revenue and $1 million increase in other income. The $1 million increase of other income over the prior year result of increase in film shoot income, fees for security service, and WeWork/Boston Properties' expense reimbursement for the transportation system upgrades.

Expenses

Total operating expenses increased by $3 million or 6%, due mainly to increases in depreciation, personnel and fringe benefits, and general and administrative expenses.

Operating Loss

Operating loss $10,648,332 and $10,496,667 for the year ended June 30, 2017 and 2016, respectively. The operating loss increased by 1%. A significant portion of BNYDC's loses were comprised of depreciation ($18.7 million). During the last few years several capital projects were moved onto fixed assets, triggering depreciation.

Net Position

Net position as of June 30, 2017 was $382,863,666; $340,856,024 was invested in capital, $1,118,385 was non-spendable (pre-paid expenses and other current assets), $500,000 was restricted reserved for City, $19,572,267 was assigned for construction projects, and $20,816,990 was unassigned (un-restricted).

During fiscal year 2017, change in total net position $36 million. This increase in total net position is a direct result of the City of New York and BNYDC's capital investments in the Navy Yard.

BNYDC Financial Management

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A Component of The City of New York)
CONSOLIDATED STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	2017	2016 (restated)
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	$ 22,925,617	$ 24,678,060
Accounts receivables, net of allowance for doubtful accounts of $774,781 in 2017 and $436,176 in 2016	1,134,172	695,799
Grant receivable	1,528,385	1,708,923
Prepaid expenses and other current assets	1,118,385	1,118,873
Total current assets	26,706,559	28,201,655
Non-current assets		
Restricted Cash and cash equivalents (Note 3)	30,316,580	38,049,501
Tenants' security deposits	6,285,261	5,399,924
Community development notes receivable (Note 4)	49,993,872	49,453,214
Deferred rent assets	4,402,847	-
Capital assets, net (Note 5)	499,979,336	434,231,157
Total assets	617,684,455	555,335,451
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable and accrued expenses	14,717,500	17,831,158
Unearned revenue (Note 6)	5,062,809	6,480,490
Total current liabilities	19,780,309	24,311,648
Non-current liabilities		
Tenants' security deposits	6,285,261	5,399,924
Unearned revenue (Note 6)	263,870	263,870
Development loans payable, net (Note 7)	132,612,004	102,000,000
Community development notes payable (Note 8)	63,364,201	64,567,252
Construction loan payable	12,515,144	11,884,883
Total liabilities	234,820,789	208,427,577
Net position		
Invested in capital assets and notes receivable, net of related liabilities	340,856,024	297,743,207
Non-spendable	1,118,385	2,771,621
Restricted	500,000	500,000
Assigned	19,572,267	23,601,916
Unassigned	20,816,990	22,291,130
Total net position	$ 382,863,666	$ 346,907,874

See accompanying notes to consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A Component of The City of New York)
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2017 and 2016

	2017	2016 (restated)
OPERATING REVENUES		
Revenue from leases		
Rents	$ 31,370,653	$ 29,020,570
Insurance	548,603	504,440
Utilities	5,494,813	5,860,208
Grants	348,600	524,750
Other income	1,360,251	340,623
Total operating revenues	39,122,920	36,250,591
OPERATING EXPENSES		
Property management		
Personnel and fringe benefits	9,414,540	8,873,679
Utilities	5,738,889	6,228,281
Property insurance	1,241,149	1,203,351
Provision for doubtful accounts	677,997	138,699
Events, programs and exhibits	324,100	190,647
Operating and maintenance	3,075,792	3,040,768
Depreciation and amortization	18,739,530	17,531,160
Total property management	39,211,997	37,206,585
General and administrative		
Personnel and fringe benefits (Schedule II)	6,775,744	6,173,410
Other (Schedule II)	3,783,511	3,367,273
Total general and administrative	10,559,255	9,540,683
Total operating expenses	49,771,252	46,747,268
Operating loss	(10,648,332)	(10,496,677)
NON-OPERATING INCOME (EXPENSE)		
Interest expense	(3,100,562)	(1,838,068)
Interest income	1,229,936	1,130,163
Loss before capital contributions	(12,518,958)	(11,204,582)
CAPITAL CONTRIBUTIONS		
Funding from the The City of New York	43,475,595	55,551,969
Capital grants (Note 10)	2,070,907	4,597,223
Tax credit investor contributions	2,928,248	10,253,698
Change in net position	35,955,792	59,198,308
Net position, beginning of year (restated) (Note 13)	346,907,874	287,709,566
Net position, end of year	$ 382,863,666	$ 346,907,874

See accompanying notes to consolidated financial statements.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
(A Component of The City of New York)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants	$ 34,526,154	$ 34,983,642
Grant Received	348,600	524,750
Other Income	1,360,251	340,623
Payments to Suppliers	(21,961,600)	(15,553,388)
Payments to Employees	(11,199,179)	(11,327,150)
Net Cash Provided by Operating Activities	3,074,226	8,968,477
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	47,237,607	65,015,684
Note Receivable	-	(19,772,292)
Purchase of Capital Assets	(85,718,834)	(88,380,311)
Proceeds from development and construction Loan	29,062,056	39,584,883
Net Cash (Used) Provided by Capital and Related Financing Activities	(9,419,171)	(3,552,036)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	266,259	488,081
Interest Expense	(3,406,678)	(1,838,068)
Net Cash (Used) by Investing Activities	(3,140,419)	(1,349,987)
Net (Decrease) Increase in Cash and Cash Equivalents	(9,485,364)	4,066,454
Cash and Cash Equivalent, including Reserve Cash at Beginning of Year	62,727,561	58,661,107
Cash and Cash Equivalent, including Reserve Cash at End of Year	$ 53,242,197	$ 62,727,561
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (10,648,332)	$ (10,496,677)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	18,739,530	17,531,160
Changes in Operating Assets and Liabilities:		
(Increase) in Receivable Net	(438,373)	(401,576)
(Increase)/Decrease in Prepaid Expenses and other Current Assets	(488)	58,596
(Decrease)/Increase in Accounts Payable and Accrued Expenses	(4,578,111)	2,276,974
Net Cash Provided by Operating Activities	$ 3,074,226	$ 8,968,477
SUPPLEMENTAL DISCLOSURE		
Interest Paid and Capitalized	$ 3,035,318	$ 3,117,401

See accompanying notes to consolidated financial statements.

NOTE 1. BACKGROUND AND ORGANIZATION

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

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

Lease and Management Contract with The City

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

The Lease was amended effective June 1, 1996, to require, among other things, payment of Annual Base Rent by BNYDC in the amount of either (i) 100% of Net Operating Income, or (ii) in such other amount as may be agreed to in writing by the parties with respect to a specific Lease Year (capitalized terms as defined in the Lease). Under existing lease agreement between The City and BNYDC, the lease has a term of 49 years commencing July 1, 2012, with five 10-year extension periods.

The City and BNYDC also enters into annual management contracts whereby, among other provisions, The City funds the improvement, replacement and rehabilitation of the infrastructure in the Navy Yard. In prior years, BNYDC advanced the funds for capital expenditures, resulting in a grant receivable from The City, which amounted to $1,528,385 and $1,708,923 at June 30, 2017 and 2016, respectively. The management contract for the fiscal year (FY) ended June 30 2017 is in the finalization and approval process. BNYDC continues to operate under the terms of the management contract for FY 2016 which provides that, if BNYDC maintains a balance of $5,000,000 in its reserve funds (The City Reserve Fund), then the Annual Base Rent under the Lease for FY 2016 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.

NOTE 1. BACKGROUND AND ORGANIZATION *(continued)*

Subsidiary Companies

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

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

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

Use of Estimates

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

Recent Accounting Pronouncements

As a component unit of The City, BNYDC implements new GASB standards in the same fiscal year as they are implemented by The City. The impact of the standards that became effective during the year ended June 30, 2017 and those that may impact BNYDC's financial reporting in future fiscal years follow.

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB No. 74). The Statement addresses the financial reports of defined benefit plans for other postemployment benefits (OPEB) that are administered through trusts that meet specified criteria. The Statement requires, among other things, a statement of fiduciary net position, a statement of changes in fiduciary net position and more extensive note disclosures and required supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated. The requirements of GASB 74 are effective for reporting periods beginning after June 15, 2016. The adoption of GASB 74 did not have an impact on BNYDC's consolidated financial statements.

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

Recent Accounting Pronouncements *(continued)*

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

- In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* (GASB 78). The Statement amends the scope and applicability of Statement 68 to exclude pensions provide to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The requirements of GASB 78 are effective for reporting periods beginning after December 15, 2015. The adoption of GASB 78 did not have an impact on BNYDC's consolidated financial statements.

- In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14* (GASB 80). The Statement clarifies the financial statement presentation requirements for certain component units by providing, among other requirements, an additional criterion that requires the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of GASB 80 are effective for reporting periods beginning after December 15, 2015. The adoption of GASB 80 did not have an impact on BNYDC's consolidated financial statements.

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

Recent Accounting Pronouncements *(continued)*

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

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

Principles of Consolidation

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

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

Revenue and Expense Classification

BNYDC distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from its real estate and related activities. The principal operating revenues consist of rents, lease-related charges for insurance and utilities and grants and contributions received and available for operating activities. BNYDC's operating expenses include property management and general and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Revenue Recognition

Rent, insurance and utilities

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

Grants and contributions

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

Capital contributions from investors are recorded as non-operating revenue in the period received.

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

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

Fair Value Measurements

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

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

Cash and Cash Equivalents

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

Accounts Receivables

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

Capital Assets

Capitalization and depreciation

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

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

***Capital Assets** (continued)*

Capitalization and depreciation *(continued)*

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

Capitalized Interest Costs

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

Pension Expense

BNYDC has non-contributory defined contribution pension plans for its non-union administrative employees and its security guards. The pension expense for the years ended June 30, 2017 and 2016 was $921,634 and $830,645, respectively.

Pension expense related to union employees are included in the respective unions' billings for fringe benefits to BNYDC.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

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

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

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

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

Generally, the Internal Revenue Service, (IRS) may examine a tax return for three years from the date it is filed. At June 30, 2017, returns for the years ended June 30, 2016 and 2015 remained open for possible examination by the IRS.

Reclassifications

Certain reclassifications have been reflected to the prior year consolidated financial statements to conform to the current year's presentation. These consist primarily of classifying reserve cash as non-current assets, netting of unamortized loan costs against development loans payable and separately presenting construction loan payable from community development loans payable. See Note 13 for restatement of prior year's consolidated financial statements.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Current assets		
Cash		
FDIC-insured	$ 1,359,095	$ 1,571,249
Uninsured	12,424,506	1,666,706
Cash Equivalents (U.S. Government Money Market Fund)	9,142,016	21,440,105
	$ 22,925,617	$ 24,678,060
Non-current assets		
Cash		
FDIC-insured	$ 500,000	$ -
Uninsured	20,859,600	3,637,225
Cash Equivalents (U.S. Government Money Market Fund)	8,456,980	33,912,276
	29,816,580	37,549,501
The City Fund Reserve		
Cash, FDIC-insured	500,000	500,000
	$ 30,316,580	$ 38,049,501
Total cash and cash equivalents		
Cash		
FDIC-insured	$ 2,359,095	$ 2,071,249
Uninsured	33,284,106	5,303,931
Cash Equivalents (U.S. Government Money Market Fund)	17,598,996	55,352,381
	$ 53,242,197	$ 62,727,561

Cash equivalents are stated at fair value based on Level I valuation inputs.

BNYDC maintains its cash and cash equivalents in deposit accounts at high credit quality financial institutions. Approximately 91% of BNYDC's cash and cash equivalents in June 30, 2017 was held by two financial institution. One of these institutions held approximately 91% of BNYDC's cash and cash equivalents in June 30, 2016.

NOTE 4. COMMUNITY DEVELOPMENT NOTES RECEIVABLE

Community development notes receivable at June 30, 2017 and 2016 consisted of promissory notes for loans extended to the following entities:

Borrower	2017	2016 (restated)
Building 128 NMTC Investment Fund LLC ("128 NMTC")	$ 19,883,719	$ 19,343,061
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
	$ 49,993,872	$ 49,453,214

128 NMTC

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

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

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

128 NMTC *(continued)*

Interest income on the loan during fiscal year 2017 and fiscal year 2016, which are included in interest and investment income, amounted to $774,729 and $753,779, respectively. Accrued interest receivable at June 30, 2017 and 2016, which are included in prepaid expenses and other current assets, amounted to $392,704 and $382,026, respectively.

The loan matures on November 15, 2042 (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.

In the previously issued consolidated financial statements of BNYDC for year ended June 30, 2016 and prior periods, the loan was stated in the original principal amount of $17,687,500, due to non-accrual of Capitalized Interest. The accompanying consolidated financial statements for the year ended June 30, 2016 has been restated to recognize accumulated Capitalized Interest of $2,196,219 and $1,655,561 as of June 30, 2016 and 2015, respectively (see Note 13).

77 NMTC

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

Interest income on the loan amounted to $133,151 during fiscal year 2017 and fiscal year 2016. Accrued interest receivable at June 30, 2017 and 2016, which are included in prepaid expenses and other current assets, amounted to $33,288.

The loan matures on January 1, 2042 (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

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

77 NMTC *(continued)*

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

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

Interest income on the loan amounted to $54,563 and $5,305 during fiscal year 2017 and fiscal year 2016, respectively. Accrued interest receivable at June 30, 2017 and 2016, which are included in prepaid expenses and other current assets, amounted to $13,641 and $5,305, respectively.

The loan matures on January 1, 2041 ("Maturity Date"). From April 10, 2022 and through Maturity Date, payments of principal and interest shall be made quarterly in arrears on January 10, April 10, July 10 and October 10 each year based on a 228-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 Eastern's interests in the CDE and certain bank accounts pursuant to various security agreements executed by 77 Eastern.

77 WICME

On May 26, 2016, BNYDC extended a loan to 77 WICME in the amount of $14,315,970 to pay a lender who financed 77 WICME's equity investment in certain CDEs ("WICME's CDE

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

77 WICME *(continued)*

Investments"). The WICME CDE Investments provided the funding for the rehabilitation of certain improvements located in BNY into approximately 1,000,000 square feet of office, light industrial and retail space within the Navy Yard. The loan matures on January 1, 2044 (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 amounted to $145,943 and $14,316 during fiscal year 2017 and fiscal year 2016, respectively. Accrued interest receivable at June 30, 2017 and 2016, which are included in prepaid expenses and other current assets, amounted to $36,188 and $14,316, respectively.

The loan matures on January 1, 2044 (Maturity Date). From April 10, 2022 and through Maturity Date, payments of principal and interest shall be made quarterly in arrears on January 10, April 10, July 10 and October 10 each year based on a 264-month amortization. The entire 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 WICME's interests in the CDE and certain bank accounts pursuant to various security agreements executed by 77 WICME.

The aggregate annual maturities of the notes receivable over the next five years and thereafter following June 30, 2017 are as follows:

Fiscal Year Ending June 30	Principal*	Interest*	Total
2018	$ -	$ 557,051	$ 557,051
2019	-	557,051	557,051
2020	-	557,051	557,051
2021	816,603	606,937	1,423,540
2022	1,151,305	595,530	1,746,835
Thereafter	49,779,480	6,379,231	56,158,711
	$ 51,747,388	$ 9,252,851	$61,000,239

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

NOTE 5. CAPITAL ASSETS

Capital Assets at June 30, 2017 and 2016 consisted of the following:

	2017	2016 (restated)
Cost		
Machinery and vehicles	$ 2,095,382	$ 1,909,782
Office equipment	1,646,136	1,633,653
Leasehold improvements, including buildings and water and sewer systems	674,144,038	588,806,408
	677,885,556	592,349,843
Less: Accumulated Depreciation	(177,906,220)	(158,118,686)
Net	$ 499,979,336	$ 434,231,157

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to $18,739,530 and $17,531,160, respectively.

NOTE 6. UNEARNED REVENUE

Unearned Revenue at June 30, 2017 and 2016 consisted of:

	2017		2016	
	Current	Noncurrent	Current	Noncurrent
Contract with the City for the rehabilitation of capital assets	$ 3,251,729	$ -	$ 4,774,923	$ -
WeWork/Boston Properties, LLC	1,799,968	-	1,095,000	-
Jack Bash Construction	-	-	464,327	-
Cogeneration Partners	11,112	263,870	11,112	263,870
Other	-	-	135,128	-
Total	$ 5,062,809	$ 263,870	$ 6,480,490	$ 263,870

NOTE 7. DEVELOPMENT LOANS PAYABLE

Development loans payable at June 30, 2017 and 2016 consisted of the following borrowings:

Lender	2017	2016
NYC Regional Center Brooklyn Navy Yard Development Fund II, LLC ("NYCRC $60,000,000 Loan")	$ -	$ 60,000,000
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	-
Sterling National Bank ("Sterling Loan")	30,750,000	-
Symetra Life Insurance Company ("Symetra Loan")	31,680,000	-
	134,430,000	102,000,000
Less unamortized loan costs	(1,817,996)	-
	$132,612,004	$102,000,000

NYCRC $60,000,000 Loan

On October 2, 2009, BNYDC entered into a credit agreement with the NYC Regional Center Brooklyn Navy Yard Development Fund II, LLC ("NYCRC II) to borrow up to $60,000,000 to finance construction and building improvements in the Navy Yard and to repay a $25,000,000 JPMorgan Chase Bank loan outstanding at that time. The credit agreement provided for interest at a fixed rate of 3.00% per annum. The loans under agreement were due on the fifth anniversary date of the last loan draw, subject to extension and revised terms at the option of BNYDC. Payments due during the term of the loan consisted of interest only, payable quarterly, on the outstanding balance until the maturity date at which time principal is payable. After a partial payment of $309,002, the due date of the loan was extended from its original maturity date of August 17, 2016 at an interest the rate of 5.50% per annum until it was refinanced on December 22, 2016 with the proceeds of the Sterling Loan and the Symetra Loan as described below.

Interest expense on the loan during fiscal year 2017 and fiscal year 2016 amounted to $1,395,296 and $1,830,000, respectively. There was no unpaid interest at June 30, 2017 and 2016.

The loans were 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 within the Navy Yard.

NOTE 7. DEVELOPMENT LOANS PAYABLE *(continued)*

NYCRC $42,000,000 Loan

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

Interest on the loan during fiscal year 2017 and fiscal year 2016, which amounted to $1,277,500 and $1,279,333, respectively, were capitalized to leasehold improvement. There was no unpaid interest at June 30, 2017 and 2016.

The loans are collateralized by an assignment of all rents, income and profits arising from all leases (except as specified in the credit agreement), subleases, tenancies or occupancy agreements or otherwise arising from the use or occupation of all the premises, as defined in the assignment of rent agreement, within the Navy Yard. Further, BNYDC has granted NYCRC LLC a first and prior security interest on, subject only to certain exclusions specified in the security agreement, in and to all of BNYDC's personal and fixture property of every kind and nature, whether currently owned or existing or subsequently acquired or arising and regardless of where located and all products, proceeds, substitutions, accessions and replacements thereof. The loans, subject to the terms of the subordination and inter-creditor agreements, are junior and subordinate to the indebtedness under the NYCRC $30,000,000 Loans.

NYCRC $30,000,000 Loan

On July 15, 2015, BNYDC entered into a credit agreement with the NYCRC Brooklyn Navy Yard Development Fund IV, LLC to borrow $30,000,000 to finance improvements to Building 77 in the Navy Yard. The credit agreement provides for interest at a fixed rate of 4.20% per annum. Except as provided in the agreement, the loans are due on the fifth anniversary date of the first loan draw, which occurred on May 10, 2017 (the "Maturity Date"). The loan may not be prepaid, in whole or in part, prior to 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

NOTE 7. DEVELOPMENT LOANS PAYABLE *(continued)*

NYCRC $30,000,000 Loan *(continued)*

during the term of the loan consists of interest only, payable quarterly, on the outstanding balance until the maturity date at which time principal is payable.

Interest expense on the loan during fiscal year 2017, which amounted $181,883, was capitalized to leasehold improvement and included in accounts payable and accrued expenses.

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

Sterling Loan

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

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

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

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

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

The loan is collateralized by, among other security, following: (i) grant to Sterling by the Sterling Borrowers of an ongoing security interests in various assets pursuant to security agreement between Sterling and the Sterling Borrowers; (ii) assignment to Sterling of BNYDC's

NOTE 7. DEVELOPMENT LOANS PAYABLE *(continued)*

Sterling Loan *(continued)*

membership interests in the Sterling Borrowers; (iii) assignment to Sterling of all of the Sterling Borrowers' right, title and interest in and to all leases, rents, income and profits arising from all current and future leases, subleases, tenancies, occupancy agreements and licenses with respect to certain premises pursuant to an assignment of leases and rents agreements among Sterling, the Sterling Borrowers and BNYDC; and (iv) and mortgage of such premises to Sterling.

Symetra Loan

On December 22, 2016, BNY Waterfront received a loan under a real estate note (the '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 expense on the loan during fiscal year 2017 amounted to $688,929. Accrued interest payable at June 30, 2017 amounted to $54,780 and is included in accounts payable and accrued expenses.

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

NOTE 7. DEVELOPMENT LOANS PAYABLE *(continued)*

The aggregate annual principal and interest due on the development loans payable over the next five years and thereafter following June 30, 2017, assuming no extensions of maturity dates with respect to the NYCRC $42,000,000 Loan and the NYCRC $30,000,000 loan, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ -	$ 5,237,480	$ 5,237,480
2019	1,205,242	5,218,807	6,424,049
2020	1,605,656	5,162,683	6,768,339
2021	43,675,206	3,952,133	47,627,339
2022	31,747,772	3,557,567	35,305,339
Thereafter	56,196,124	21,016,508	77,212,632
	$134,430,000	$ 44,145,178	$178,575,178

NOTE 8. COMMUNITY DEVELOPMENT NOTES PAYABLE

Community development loans payable at June 30, 2017 and 2016 consisted of promissory notes issued by the GMC Landlord and 77 Inc., two of BNYDC's entities, to the following community development entities ("CDE Lenders"):

BNYDC Entity/CDE Lender	2017	2016
GMC Landlord promissory notes dated September 6, 2012 ("GMC Notes"):		
ESNMC Subsidiary CDE II, LLC ("ESNMC")		
ESNMC Loan A	$ 8,490,0000	$ 8,490,0000
ESMNC Loan B	3,150,000	3,150,000
Empowerment Reinvestment Fund XXI, LLC ("ERF")		
ERF Loan A	5,660,000	5,660,000
ERF Loan B	2,020,000	2,020,000
GSNMF SUB-CDE 4 LLC ("GSNMF-4")		
GSNMF-4 Loan A	3,537,500	3,537,500
GSBMF-4 Loan B	1,462,500	1,462,500
	24,320,000	24,320,000
77 Inc. promissory notes dated December 22, 2014 ("77 Inc. 2014 Notes"):		
GSNMF SUB-CDE 17 LLC ("GSNMF-17")		
GSNMF-17 Loan A	3,448,930	3,448,930
GSNMF-17 Loan B	1,551,070	1,551,070
DVCI CDE XXIV, LLC ("DVCI")		
DVCI Loan A	6,888,931	6,888,931
DVCI Loan B	2,811,069	2,811,069
	14,700,000	14,700,000
77 Inc. promissory notes dated May 26, 2016 ("77 Inc. 2016 Notes"):		
GSNMF Sub-CDE 21 LLC ("GSNMF-21")		
GSNMF-21 Loan A	5,441,600	5,441,600
GSNMF-21 Loan B	2,558,400	2,558,400
BRP SUB CDE TWO, LLC ("BRP")		
BRP Loan A	13,975,890	13,975,890
BRP Loan B	5,224,110	5,224,110
	27,200,000	27,200,000
	66,220,000	66,220,000
Less unamortized loan costs	(2,855,799)	(1,652,748)
	$ $63,364,201	$ $64,567,252

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

GMC Notes

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

Interest expense on the GMC Notes totaled $243,200 in fiscal year 2017 and 2016; accrued interest payable, which is included in accounts payable and accrued expenses, totaled $121,600 at June 30, 2017 and 2016.

The aggregate annual principal and interest due on the GMC Notes over the next five years and thereafter following June 30, 2017 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ -	$ 243,20	$ 243,200
2019	-	243,200	243,200
2020	-	243,200	243,200
2021	941,794	243,200	1,184,994
2022	951,212	233,782	1,184,994
Thereafter	22,426,994	2,552,783	24,979,777
	$ 24,320,000	$ 3,759,36	$ 28,079,365

Under the loan agreement, ESNMC and ERF each earns an annual asset management fee of $42,000 and $60,000, respectively, prorated for partial years, commencing on November 15, 2012 and continuing for the term of the respective loans. For the fiscal years ended June 30, 2017 and 2016, ESNMC and ERF asset management fees totaled $42,000 and $60,000, respectively, of which $-0- and $-0-, respectively, were incurred during construction and capitalized to leasehold improvements.

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

GMC Notes *(continued)*

Further, ESNMC and ERF each receives a CDE expense reimbursement of $12,500, commencing on November 15, 2012 and continuing for the term of the respective loans. In 2019, there will be a CDE expense reimbursement to each of ESNMC and ERF equal to two annual installments in the amount of $12,500 each, both payable on September 6, 2019. For the fiscal years ended June 30, 2017 and 2016, ESNMC and ERF CDE expense reimbursements totaled $25,000 and $25,000, respectively, of which $-0- and $-0-, respectively, were incurred during construction and capitalized to leasehold improvements.

77 Inc. 2014 Notes

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

Interest incurred on the 77 Inc. 2014 Notes and capitalized to leasehold improvements totaled $147,000 in fiscal year 2017 and 2016; accrued interest payable, which is included in accounts payable and accrued expenses, totaled $36,750 at June 30, 2017 and 2016.

In accordance with the Corporation's loan agreement, DVCI earns an asset management fee in the amount of $50,000 annually, prorated for partial years, commencing on November 15, 2012 and continuing for the term of the DVCI loan. For the years ended June 30, 2017 and 2016, DVCI asset management fees of $50,000 have been incurred, paid, and capitalized as construction in progress.

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

77 Inc. 2014 Notes *(continued)*

In accordance with the Corporation's loan agreement, an audit and tax expense reimbursement to DVCI equal to $10,570 is due annually from the DVCI Fee Reserve, commencing on November 15, 2012 and continuing for the term of the DVCI loan. For the years ended June 30, 2017 and 2016, DVCI expense reimbursements of $10,570, have been incurred, paid, and capitalized as construction in progress.

The aggregate annual principal and interest due on the 77 Inc. 2014 Notes over the next five years and thereafter following June 30, 2017 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ -	$ 147,000	$ 147,000
2019	-	147,000	147,000
2020	-	147,000	147,000
2021	-	147,000	147,000
2022	115,071	147,000	262,071
Thereafter	14,584,929	2,115,337	16,700,266
	$ 14,700,000	$ 2,850,337	$ 17,550,337

77 Inc. 2016 Notes

On May 26, 2016, 77, Inc. entered into separate loan agreements with GSNMF-21 and BRP to finance rehabilitation of improvements to in Building 77. The loan mortgages are collateralized by the building of the corporation and consists of four promissory as listed above. The GNSMF-21 promissory notes bear interest at .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 77 Inc. 2016 Notes and capitalized to leasehold improvements totaled $238,128 and $23,15 in fiscal year 2017 and 2016, respectively; accrued interest payable, which is included in accounts payable and accrued expenses, totaled $59,532 and $23,15 at June 30, 2017 and 2016, respectively.

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

77 Inc. 2016 Notes *(continued)*

The aggregate annual principal and interest due on the 77 Inc. 2016 Notes over the next five years and thereafter following June 30, 2017 are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ -	$ 238,128	$ 238,128
2019	-	238,128	238,128
2020	-	238,128	238,128
2021	-	238,128	238,128
2022	216,750	238,128	454,878
Thereafter	26,983,250	3,407,784	30,391,034
	$ 27,200,000	$ 4,598,424	$ 31,798,424

In accordance with the Corporation's loan agreement, BRP CDE, LLC ("Allocatee") earns a management fee in the amount of $250,000 and payable in installments commencing on May 26, 2016. The final installment is due on May 26, 2019. For the years ended June 30, 2017 and 2016, Allocatee management fees of $78,732 and $0 have been incurred, paid, and capitalized as construction in progress.

NOTE 9. CONSTRUCTION LOAN PAYABLE

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

On the date of the conversion, the loan balance was established at $13,744,373 and included additional advances of $1,694,884 for construction costs, compounded accrued interest to date of $371,360 and a reduction of $206,754 representing the remittance of contribution from BNY HTC pursuant to the Operating Agreement dated April 2, 2015. Monthly payments of $129,193 are due beginning April 5, 2017 through March 5, 2027. Payments from April to June 2017 totaled $387,580, consisting of $304,359 in principal and $83,220 in interest.

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

NOTE 9. CONSTRUCTION LOAN PAYABLE *(continued)*

Interest incurred on the construction loan totaled $367,305 and $37,532 during fiscal year 2017 and 2016, respectively, of which $333,828 and $37,532, respectively, were capitalized to leasehold improvements. Accrued interest at June 30, 2017 and 2016 amounted to $33,478 and $37,532, respectively, and are included in accounts payable and accrued expenses. The accrued interest at June 30, 2016 was part of the interest capitalized into principal amount on conversion date.

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

The aggregate annual principal and interest due on the construction loan over the next five years and thereafter following June 30, 2017, before adjustments of the monthly payments as a result of the construction costs added in March 2017 and BNY HTC contribution in June 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	$ 1,236,148	$ 314,173	$ 1,550,321
2019	1,266,650	283,671	1,550,321
2020	1,297,904	252,417	1,550,321
2021	1,329,929	220,392	1,550,321
2022	1,362,745	187,576	1,550,321
Thereafter*	6,021,768	417,384	6,439,152
	$ 12,515,144	$ 1,675,613	$ 14,190,757

* Principal was increased by construction cost of 1,676,468 added in March 2017 and reduced by BNY contribution of $2,601,340 received in June 2017.

NOTE 10. CAPITAL CONTRIBUTIONS AND GRANTS

City Capital Contributions

Since 1996, BNYDC receives contributions from The City for the replacement and rehabilitation of capital assets funded from City capital budget. For the years ended June 30, 2017 and 2016, BNYDC recognized $43,475,595 and $55,551,969, respectively, as non-operating revenue for rehabilitation work completed.

Tax Credit Capital Contribution

On August 8, 2013, GMC Master Tenant's operating agreement was amended and restated to admit Brooklyn Navy Yard HTC Investor, LLC as its 99% investor member. This investor is required to make a capital contribution of $16,477,440. For the years ended June 30, 2017 and 2016, contributions of $2,928,248 and $12,880,732, respectively, were received.

On April 2, 2015, GMC Master Tenant entered into agreements to perform tenant improvement work for its tenant, New Lab, LLC. The operating agreement was amended and restated for the investor member to make an additional capital contribution of $3,837,595 towards the improvement work. For the years ended June 30, 2017 and 2016, contributions of $2,808,093 and $-0-, respectively, were received.

US Department of Homeland Security, Federal Emergency Management Agency

The US Department of Homeland Security, Federal Emergency Management Agency (FEMA) has awarded BNYDC capital funds to rehabilitate the Navy Yard for damages sustained from the 2012 Super-storm Sandy. FEMA, through the funds administered by The City, will reimburse BNYDC for expenditures incurred in the rehabilitation program.

During the year ended June 30, 2016, BNYDC was reimbursed and recognized $920,089 as capital contributions. No such contributions were received during the year ended June 30, 2017.

Other Capital Grants

During the year ended June 30, 2017 and 2016, BNYDC received capital funds of $2,070,907 and $4,597,223, respectively, from Empire State Development Corporation and other grantors to facilitate improvements to the Navy Yard.

NOTE 11. LEASES WITH TENANTS

BNYDC has lease commitments from over 300 commercial tenants for space for periods ranging from one to more than fifty (50) years. Minimum future rental income from those leases is as follows:

2018	24,139,024
2019	22,745,887
2020	20,640,754
2021	18,403,162
2022 - 2026	69,335,595
2027 - 2031	52,434,927
2032 - 2036	47,766,746
2037 - 2041	48,397,168
2042 - 2046	41,702,843
2047 - 2051	45,925,748
2052 - 2056	43,998,480
2057 - 2061	40,561,386
2062 - 2066	44,687,943
2067 - 2069	22,521,799
	$ 543,261,462

NOTE 12. COMMITMENT AND CONTINGENCIES

BNYDC is involved in general liability insurance claims relating to damages suffered by tenants and various other legal matters which are being defended and handled in the ordinary course of business. The liability, if any, associated with each of these matters is capped at $50,000 per occurrence with an annual maximum limit of $1,000,000. Management believes that the ultimate resolution of such claims will not have a materially adverse effect on BNYDC's consolidated financial statements.

NOTE 13. RESTATEMENTS

The consolidated financial statements for the year ended June 30, 2016 were restated to reflect previously unrecognized interest income receivable totaling $1,655,561 that accretes to the principal of one of community development notes receivable; of this amount, $1,013,479 pertained to prior periods.

NOTE 14. SUBSEQUENT EVENTS

In connection with the preparation of the consolidated financial statements, BNYDC evaluated subsequent events after the statement of financial position date of June 30, 2017 through September 7, 2017, which was the date the consolidated financial statements were available to be issued. BNYDC is not aware of any subsequent events that require disclosure in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
SCHEDULE OF PROPERTY MANAGEMENT REVENUE AND EXPENSES
For the year ended June 30, 2017
(With comparative totals for 2016)

	2017			
	NAVY YARD CENTER AT 92	BNYDC	Total	2016 (restated)
OPERATING REVENUES	$ 229,979	$ 38,892,941	$ 39,122,920	$ 36,250,591
EXPENSES				
Direct expenses				
Utilities				
Electric	71,023	4,094,278	4,165,301	4,520,781
Steam	-	849,291	849,291	916,609
Water	-	724,297	724,297	790,891
Payroll and related fringe benefits				
Protective services and transportation	42,935	3,151,677	3,194,612	2,911,681
Maintenance, utilities and engineering	49,788	3,267,529	3,317,317	3,059,851
Fringe benefits	307,555	2,595,056	2,902,611	2,902,148
Other Direct Expenses				
Materials, supplies and building maintenance	31,739	2,876,351	2,908,090	2,930,109
Events, programs and exhibits	220,336	103,764	324,100	190,647
Property insurance	12,334	1,228,815	1,241,149	1,203,351
Brokerage and leasing		167,702	167,702	110,658
Provision for doubtful accounts	3,996	674,001	677,997	138,699
Total direct expenses	739,706	19,732,761	20,472,467	19,675,425
Net operating (loss) revenue	(509,727)	19,160,180	18,650,453	16,575,166
General and administrative expenses				
Personnel and fringe benefits	622,322	6,153,422	6,775,744	6,173,410
Other	296,229	3,487,282	3,783,511	3,367,273
Total general and administrative expenses	918,551	9,640,704	10,559,255	9,540,683
Operating (loss) income before depreciation and and amortization and non-operating income (expense)	(1,428,278)	9,519,476	8,091,198	7,034,483
DEPRECIATION AND AMORTIZATION AND NON-OPERATING INCOME (EXPENSE)				
Depreciation and amortization	-	(18,739,530)	(18,739,530)	(17,531,160)
Interest Income	-	1,229,936	1,229,936	1,130,163
Interest Expense	-	(3,100,562)	(3,100,562)	(1,838,068)
Net depreciation and amortization and non-operating income (expense)	-	(20,610,156)	(20,610,156)	(18,239,065)
Loss before capital contributions	$ (1,428,278)	$(11,090,680)	$ (12,518,958)	$ (11,204,582)

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
For the years ended June 30, 2017 and 2016

	2017	2016
PERSONNEL AND FRINGE BENEFIT EXPENSES		
Executive and legal	$ 1,502,394	$ 1,356,658
Finance and leasing	1,136,190	1,148,643
Human resources	344,728	299,330
Development and external affairs	838,846	734,004
Technology and information	236,061	203,356
Building 92 and employment center	601,522	498,405
Payroll taxes and fringe benefits	2,280,623	2,101,555
Total personnel and fringe benefits	6,940,364	6,341,950
Less payroll and related costs capitalized	(164,620)	(168,540)
Net personnel and fringe benefit expenses	6,775,744	6,173,410
OTHER EXPENSES		
Legal	745,235	430,257
Accounting and auditing	44,500	43,900
Computer contract and supplies	669,225	603,386
Postage	15,907	15,393
Communication	138,761	126,546
Director's liability insurance	13,093	10,000
Corporate	117,345	117,220
Board	6,749	21,731
Community employment	270,886	325,580
Advertising and marketing	463,816	354,914
Stationery and office supplies	61,151	85,708
Consultants	382,472	602,935
Gasoline	140,105	60,996
Vehicle repairs and maintenance	398,910	272,549
Payroll processing	56,760	38,054
Education and training	182,496	79,290
Miscellaneous	168,022	237,390
Total other expenses	3,875,433	3,425,848
Less other expenses capitalized	(91,922)	(58,575)
Net other expenses	3,783,511	3,367,273
Total general and administrative expenses	$ 10,559,255	$ 9,540,683

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CERTIFIED PUBLIC ACCOUNTANTS

265 East Merrick Road - Suite 205
Valley Stream, New York 11580
(516) 872-6922/FAX: (516) 872-6925
EMAIL: deansarcher@deansarcher.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *"GOVERNMENT AUDITING STANDARDS"*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Brooklyn Navy Yard Development Corporation, ("BNYDC"), (a component of The City of New York), which comprise the consolidated statement of net position as of June 30, 2016, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 7, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deans Archer & Co

Valley Stream, New York
September 7, 2017