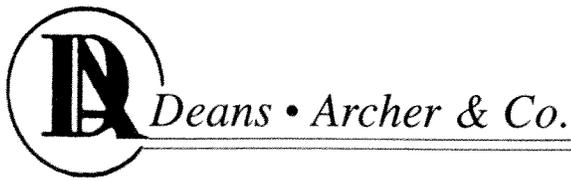


**BROOKLYN NAVY YARD DEVELOPMENT  
CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT AND  
SUPPLEMENTARY INFORMATION  
June 30, 2014  
(With comparative totals for 2013)**

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying consolidated statements of net assets of Brooklyn Navy Yard Development Corporation, ("BNYDC"), as of June 30, 2014 and 2013, and the related consolidated statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Navy Yard Development Corporation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014, on our consideration of BNYDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BNYDC's internal control over financial reporting and compliance.



Valley Stream, New York  
September 9, 2014

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**

**MANAGEMENT DISCUSSION AND ANALYSIS**

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

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This section of the Brooklyn Navy Yard Development Corporation's, ("BNYDC") annual financial report presents our management analysis of BNYDC's financial performance during the fiscal year that ended on June 30, 2014.

**Overview of BNYDC and the Consolidated Financial Statements**

BNYDC is responsible for the leasing, management, and development of the Brooklyn Navy Yard for industrial, maritime, and commercial uses. The corporation operates under a lease with The City of New York that, after exercising all renewal periods, expires in 2111 and also under an annual management contract. BNYDC has the dual responsibility of generating revenues to cover all of its operating expenses while simultaneously implementing strategies to retain and increase employment. The Corporation is also responsible for the maintenance of the Navy Yard's buildings, roadways, utility distribution systems, fire hydrants, water and sewage, sanitation, snow removal, and street security. For the fiscal year ended June 30, 2014, BNYDC incurred an operating loss of (\$10,104,136). However, when depreciation and amortization (non-cash items) are factored out, BNYDC realized an excess of operating revenue over operating expenses of \$5,342,607 (\$15,446,743 less \$10,104,136). This resulted in a positive cash flow of \$6,516,952 provided by operating activities.

**Financial Highlights**

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

- The corporation's cash and cash equivalents, including reserved cash, totaled \$81,961,753 at June 30, 2014.
- Current assets stand at \$93,689,510 vs. current liabilities of \$20,539,750
- BNYDC operated with a working capital position of \$73 million on a \$35 million budget
- Investment in property and equipment grew by \$21.1 million
- BNYDC generated positive cash flows in excess of \$6.5 million from operations

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

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**Statement of Net Assets Analysis**

	<u>2014</u>	<u>2013</u>	<u>% Increase (Decrease) 2014-2013</u>
Cash and Cash Equivalents (Including Reserve Cash)	\$ 81,961,753	\$ 83,334,267	-2%
Working Capital	73,149,760	84,209,796	-13%
Property and Equipment	308,078,363	286,951,760	7%
Total Net Assets	272,820,641	263,242,962	4%

**Assets**

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

**Statement of Revenue and Expense Analysis**

	<u>2014</u>	<u>2013</u>	<u>% Increase (Decrease) 2014-2013</u>
Rent Revenue	\$ 27,721,011	\$ 26,985,512	3%
Total Operating Revenues	35,076,968	33,070,779	6%
Depreciation and Amortization	15,446,743	14,772,304	5%
Utilities	7,765,752	5,845,955	33%
Property Insurance	1,375,198	1,121,543	23%
Total Operating Expenses	45,181,104	40,724,084	11%

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**June 30, 2014 and 2013**

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**Statement of Revenue and Expense Analysis**

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

**Revenue**

The demand for industrial space continued to be strong during fiscal year 2014. BNYDC realized an increase in rent revenues of 3% mainly as a result of higher base payments due to lease renewals and tenant turnover. The total operating revenues are up 6% for fiscal year 2014.

**Expenses**

Total operating expenses increased by 11%, due mainly to increases in personnel and fringe benefits, insurance and utilities costs and depreciation and amortization charges. Insurance costs increased by 23%. This was primarily due to the increases in BNYDC overall property premium and flood insurance coverage as a result of Superstorm Sandy. Utilities increased by 33% because of the harsh winter and overall higher utility rates.

**Capital Infrastructure Investment**

BNYDC entered into a second credit agreement with New York City Regional Center to borrow \$42,000,000 to finance construction and building improvements in the Navy Yard. At the end of the fiscal year \$41,500,000 was borrowed.

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

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF NET ASSETS**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash and Cash Equivalents (Note 4)	\$ 8,551,873	\$ 5,930,858
Reserved Cash (Note 4)	73,409,880	77,403,409
Accounts Receivables: Less Allowance for Doubtful		
Accounts of \$4,471,934 in 2014 and \$2,831,874 in 2013	1,215,261	1,811,286
Receivable from Grants and Contracts (Note 9)	9,322,134	10,311,637
Prepaid Expenses and other Current Assets	<u>1,190,362</u>	<u>818,410</u>
Total Current Assets	93,689,510	96,275,600
Cash-tenants' Security Deposits	3,232,980	2,805,440
Community Development Note Receivable (Note 5)	17,687,500	17,687,500
Property and Equipment, Net (Note 6)	<u>308,078,363</u>	<u>286,951,760</u>
Total Assets	<u>\$ 422,688,353</u>	<u>\$ 403,720,300</u>
<b>LIABILITIES</b>		
<i>Current Liabilities</i>		
Accounts Payable and Accrued Expenses	\$ 3,820,442	\$ 2,973,583
Unearned Revenue (Note 7)	<u>16,719,308</u>	<u>9,092,221</u>
Total Current Liabilities	20,539,750	12,065,804
Tenants' Security Deposits	3,232,980	2,805,440
Unearned Revenue (Note 7)	274,982	286,094
Development Loans (Note 12)	101,500,000	101,000,000
Community Development Loan (Note 13)	<u>24,320,000</u>	<u>24,320,000</u>
Total Liabilities	<u>149,867,712</u>	<u>140,477,338</u>
<b>Net Assets (Note 2)</b>		
Invested in Capital Assets, Net of Related Debt	245,729,581	220,319,260
Operating	<u>27,091,060</u>	<u>42,923,702</u>
Total Net Assets	<u>\$ 272,820,641</u>	<u>\$ 263,242,962</u>

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**  
**For the years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Rents	\$ 27,721,011	\$ 26,985,512
Additional Rent (Insurance Premium)	581,626	428,834
Utilities	5,584,961	4,756,116
Grants	434,900	524,358
Other Income	754,470	375,959
	<u>35,076,968</u>	<u>33,070,779</u>
<b>OPERATING EXPENSES</b>		
<i>Property Management</i>		
Personnel and Fringe Benefits	8,672,312	8,384,564
Utilities	7,765,752	5,845,955
Property Insurance	1,375,198	1,121,543
Provision for Bad Debts	1,788,996	1,013,420
Events, Programs & Exhibits	245,349	197,445
Other Operating and Maintenance	2,844,602	2,764,466
Depreciation and Amortization	15,446,743	14,772,304
	<u>38,138,952</u>	<u>34,099,697</u>
<i>General and Administrative</i>		
Personnel and Fringe Benefits (Schedule II)	5,073,875	4,822,801
Other (Schedule II)	1,968,277	1,801,586
	<u>7,042,152</u>	<u>6,624,387</u>
	<u>45,181,104</u>	<u>40,724,084</u>
Operating Loss	(10,104,136)	(7,653,305)
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Interest Expense	(756,054)	(757,326)
Interest and Investment Income	252,696	115,461
	<u>(10,607,494)</u>	<u>(8,295,170)</u>
<i>Capital Contributions</i>		
City of New York Capital Budget (Note 9)	17,210,838	21,182,472
Tax Credit Capital Contribution (Note 10)	2,974,335	-
Change in Net Assets before Extraordinary Item	9,577,679	12,887,302
Extraordinary Item (Note 11)	-	(1,813,604)
Change in Net Assets	9,577,679	11,073,698
<b>Total Net Assets at Beginning of Year</b>	<u>263,242,962</u>	<u>252,169,264</u>
<b>Total Net Assets at End of Year</b>	<u>\$ 272,820,641</u>	<u>\$ 263,242,962</u>

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Tenants	\$ 35,672,993	\$ 33,302,277
Payments to Suppliers	(18,548,109)	(15,107,144)
Payments to Employees	(10,607,932)	(10,399,115)
Net Cash Provided by Operating Activities	<u>6,516,952</u>	<u>7,796,018</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	28,790,651	21,769,324
Note Receivable	-	(17,687,500)
Purchase of Capital Assets	(36,676,759)	(34,874,313)
Development Loan	500,000	65,320,000
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>(7,386,108)</u>	<u>34,527,511</u>
<b>CASH FLOWS (USED) BY EXTRAORDINARY ITEMS</b>		
Superstorm Sandy	-	(1,813,604)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	252,696	115,461
Interest Expense	(756,054)	(757,326)
Net Cash (Used) Provided by Investing Activities	<u>(503,358)</u>	<u>(641,865)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,372,514)	39,868,060
Cash and Cash Equivalent, including Reserve Cash at Beginning of Year	<u>83,334,267</u>	<u>43,466,207</u>
Cash and Cash Equivalent, including Reserve Cash at End of Year	<u>\$ 81,961,753</u>	<u>\$ 83,334,267</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (10,104,136)	\$ (7,653,305)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	15,446,743	14,772,304
Changes in Operating Assets and Liabilities:		
Decrease in Receivable Net	596,025	231,498
(Increase) in Prepaid Expenses and other Current Assets	(371,952)	(160,844)
Increase in Accounts Payable and Accrued Expenses	950,272	606,365
Net Cash Provided by Operating Activities	<u>\$ 6,516,952</u>	<u>\$ 7,796,018</u>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest Paid and Capitalized	<u>\$ 1,493,333</u>	<u>\$ 1,324,800</u>

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 1. ORGANIZATION**

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

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

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

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

**GMC SUBSIDIARY COMPANIES**

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

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

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

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

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

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

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Revenue Recognition

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

Accounts Receivables

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

Principles of Consolidation

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

Property and Leasehold Improvements

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

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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

Concentration of Credit Risk

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

Cash Equivalents

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

Fair Value Measurements (ASC 820)

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

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

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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

Income Taxes

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

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

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

Generally the Internal Revenue Service, (IRS) may examine a tax return for three years from the date it is filed. At June 30, 2014, tax years ended June 30, 2013, 2012 and 2011 remained open for possible examination by the IRS.

Prior Year Summarized Information

The consolidated financial statements contain certain prior year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the BNYDC's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Use of Estimates

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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

Subsequent Events (ASC 820)

In connection with the preparation of the consolidated financial statements and in accordance with *Auditing Standards Codification* (ASC 820) Topic 855, *Subsequent Events*, BNYDC evaluated subsequent events after the statement of financial position date of June 30, 2014 through September 9, 2014, which was the date the consolidated financial statements were available to be issued. BNYDC is not aware of any subsequent events that require recognition or disclosure in the consolidated financial statements.

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

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

Compliance with GASB 54

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

	<u>2014</u>	<u>2013</u>
Nonspendable	\$ 1,190,362	\$ 818,410
Restricted	500,000	500,000
Committed	245,729,581	220,319,260
Assigned	19,454,276	36,840,222
Unassigned	<u>5,946,692</u>	<u>4,765,070</u>
Total Fund Balance	<u>\$ 272,820,911</u>	<u>\$ 263,242,962</u>

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 3. PENSION PLAN**

BNYDC has non-contributory defined contribution pension plans for its administrative employees and its security guards. The union plans for Local 3 and Local 30 are part of their negotiated fringe benefit packages and are accounted for therein. BNYDC's policy is to fund pension cost accrued and there are no unfunded vested benefits. The pension plan expense for the years ended June 30, 2014 and 2013 was \$860,504 and \$925,377, respectively.

**NOTE 4. CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents consisted of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
US Government Securities	\$ 6,336,842	\$ 4,174,594
FDIC Insured	1,343,611	1,132,665
Uninsured	<u>871,420</u>	<u>623,599</u>
	<u>\$ 8,551,873</u>	<u>\$ 5,930,858</u>

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

<u>Reserved Cash</u>	<u>2014</u>	<u>2013</u>
US Government Securities	\$ 59,558,075	\$ 59,488,852
FDIC Insured	510,360	500,000
Uninsured	<u>13,341,445</u>	<u>17,414,557</u>
	<u>\$ 73,409,880</u>	<u>\$ 77,403,409</u>

Cash reserved for construction and building improvements at June 30, 2014 and 2013 was \$72,909,880 and \$76,903,409, respectively.

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 5. COMMUNITY DEVELOPMENT NOTE RECEIVABLE**

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

**NOTE 6. PROPERTY AND EQUIPMENT**

Property and Equipment consisted of the following for the years ended June 30, 2014 and 2013:

	<u><b>2014</b></u>	<u><b>2013</b></u>
Machinery and Vehicles	\$ 1,932,346	\$ 1,807,246
Office Equipment	1,253,644	1,176,661
Leasehold Improvements, Buildings, Water and Sewer	<u>432,019,220</u>	<u>396,604,367</u>
Total	435,205,210	399,588,274
Less: Accumulated Depreciation	<u>(127,126,847)</u>	<u>(112,636,514)</u>
Net: Property and Equipment	<u><u>\$ 308,078,363</u></u>	<u><u>\$ 286,951,760</u></u>

Depreciation Expense for 2014 and 2013 amounted to \$15,446,743 and \$14,772,304, respectively.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 7. UNEARNED REVENUE**

At June 30, 2014, Unearned Revenue relates to:

	<u>Current</u>	<u>Noncurrent</u>
Contract with The City of New York for the Rehabilitation of Capital Assets	\$ 16,613,196	\$ -
WeWork Companies, LLC	95,000	-
Forty-five (45) year Lease Agreement with Cogeneration Partners	<u>11,112</u>	<u>274,982</u>
Total	<u>\$ 16,719,308</u>	<u>\$ 274,982</u>

At June 30, 2013, Unearned Revenue relates to:

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

**NOTE 8. LEASE WITH THE CITY OF NEW YORK**

BNYDC is the lessee of the premises known as the Brooklyn Navy Yard under the terms of a lease, ("Lease") with The City of New York, ("Lessor"). The Lease after exercising all renewal periods will expire as of June 30, 2111. The Lease was amended effective June 1, 1996, to require, among other things, payment of Annual Base Rent by BNYDC in the amount of either (i) 100% of Net Operating Income, (as defined in Section 4.01 B (ii) of the Lease), or (iii) in such other amount as may be agreed to in writing by the parties with respect to a specific

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 8. LEASE WITH THE CITY OF NEW YORK *(Continued)***

Lease Year. The Management Contract between The City of New York and BNYDC, covering FY 2014, provides that if BNYDC maintains a balance of \$5,000,000 in its Reserve Fund, then the Base Rent under the Lease for FY 2014 is zero. As discussed in Note 4 above, the cash balance as of June 30, 2014 is \$500,000. Since the reduction in the cash balance is with the approval of The City of New York, the base rent for FY 2014 remains at zero.

**NOTE 9. CITY OF NEW YORK CAPITAL BUDGET**

On June 30, 1996, BNYDC entered into the first in a series of annual management contracts with The City of New York for the replacement and rehabilitation of capital infrastructure to be funded from The City of New York's capital budget. For the years ended June 30, 2014 and 2013, BNYDC recognized \$17,210,838 and \$21,182,472, respectively, as capital contributions for rehabilitation work completed. Furthermore, the receivable from The City of New York for the rehabilitation work at June 30, 2014 and 2013 was \$9,322,134 and \$10,311,637, respectively.

**NOTE 10. RELATED PARTY - NEW MARKET TAX CREDIT PROJECT (NMTC)**

Nature of Operations

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

Fees

BNYDC is set to earn a developer fee of \$2,500,000 to oversee the rehabilitation of the building. This fee is to be paid upon satisfaction of certain conditions provided, however, that the total shall be due and payable on the tenth anniversary of the completion of the Building. As of June 30, 2014, \$1,325,000 was earned and unpaid.

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 10. RELATED PARTY – NEW MARKET TAX CREDIT PROJECT (NMTC)**  
*(Continued)*

BNYDC is also serving as a general contractor on the Building. For this effort, BNYDC will earn \$8,000,000 for construction management fees. This fee is to be paid upon satisfaction of certain conditions provided, however, that the total shall be due and payable on the completion of the Building. As of June 30, 2014, \$4,213,600 was earned and unpaid.

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 \$14,871,675. As of June 30, 2014, an initial contribution of \$2,974,335 was made.

**NOTE 11. EXTRAORDINARY ITEM**

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

**NOTE 12 DEVELOPMENT LOANS**

- i. On October 2, 2009 BNYDC entered into a credit agreement with New York City Regional Center to borrow \$60,000,000 to finance construction and building improvements in the Navy Yard and to repay a \$25,000,000 JPMorgan Chase Bank loan. The agreement provides for interest at a fixed rate of 3% per annum. Repayment is interest only, payable quarterly, on any outstanding balance until the maturity date at which time principal is payable. The maturity date is September 17, 2016, which may be extended at BNYDC's option for an additional five years at a rate not to exceed 6%. The collateral for this loan is the assignment of future rents.
- ii. On July 26, 2012, BNYDC entered into a second credit agreement with New York City Regional Center to borrow \$42,000,000 to finance improvements to a building in the Navy Yard. The agreement provides for interest at a fixed rate of 3% per annum. Repayment is interest only, payable quarterly, on any outstanding balance until the maturity date at which time principal is payable. The maturity date is the fifth anniversary

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 12      DEVELOPMENT LOANS (Continued)**

of the last advance of the loan. The collateral for this loan is the assignment of future rents, subordinate to the first credit agreement with the New York Regional Center. As of June 30, 2014, the total amount borrowed was \$41,500,000, thus the maturity date will be at a date to be determined, but after June 30, 2019.

**NOTE 13      COMMUNITY DEVELOPMENT LOAN**

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

**NOTE 14.      LEASES WITH TENANTS**

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

2015	\$	24,125,000
2016		21,998,000
2017		18,233,000
2018		16,906,000
2019		15,137,000
2020-2024		51,804,000
2025-2029		38,357,000
2030-2034		39,867,000
2035-2039		34,695,000
2040-2044		32,900,000
2045-2049		31,720,000
2050-2054		35,300,000
2055-2059		38,831,000
2060-2064		42,690,000
2065-2069		37,666,000
	\$	<u>480,229,000</u>

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

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**NOTE 15. TENANT BANKRUPTCY**

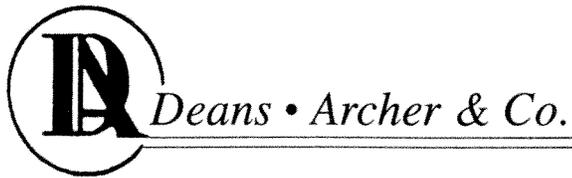
On March 19, 2014 a tenant, Surround Art Management, filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. At June 30, 2014 and 2013, Surround Art Management's outstanding balances of \$4,248,882 and \$2,348,609, respectively, were fully provided for in the allowance for doubtful accounts.

**NOTE 16. COMMITMENT AND CONTINGENCIES**

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

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**

**SUPPLEMENTARY INFORMATION**



CERTIFIED PUBLIC ACCOUNTANTS  
265 East Merrick Road  
Valley Stream, New York 11580  
(516) 872-6922/FAX: (516) 872-6925

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Brooklyn Navy Yard Development Corporation, (“BNYDC”), which comprise the consolidated statements of net assets, revenues, expenses and cash flows as of June 30, 2014, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 9, 2014. The financial statements of GMC Brooklyn, Inc., GMC Landlord, LLC and GMC Master Tenant LLC, (“GMC Subsidiary Companies”) were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal controls over financial reporting or instances of reportable noncompliance associated with GMC Subsidiary Companies.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Valley Stream, New York  
September 9, 2014

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**SCHEDULE OF PROPERTY MANAGEMENT REVENUE AND EXPENSES**  
**For the year ended June 30, 2014**  
**(With comparative totals for 2013)**

	<b>NAVY YARD</b>			
	<b>CENTER AT 92</b>	<b>BNYDC</b>	<b>2014</b>	<b>2013</b>
<b>REVENUE</b>	\$ 648,557	\$ 34,428,411	\$ 35,076,968	\$ 33,070,779
<i>Direct Expenses</i>				
Electricity Purchased	82,299	4,868,760	4,951,059	3,673,520
Steam Purchased	-	2,110,195	2,110,195	1,408,376
Water Purchased	-	704,498	704,498	764,059
Payroll and Related Fringe Benefits:				
Protective Services	95,433	2,891,789	2,987,222	2,870,206
Maintenance, Utilities, and Engineering	45,974	2,758,478	2,804,452	2,974,601
Fringe Benefits	63,540	2,817,098	2,880,638	2,539,757
<i>Other Direct Expenses</i>				
Materials, Supplies, and Building Maintenance	43,557	2,801,045	2,844,602	2,664,466
Events, Programs & Exhibits	245,349	-	245,349	197,445
Property Insurance	13,148	1,362,050	1,375,198	1,121,543
Bad Debt	2,750	1,786,246	1,788,996	1,013,420
Total Direct Expenses	592,050	22,100,159	22,692,209	19,327,393
Revenue from Operations	56,507	12,328,252	12,384,759	13,743,386
<i>General and Administrative Expenses</i>				
Personnel and Fringe Benefits	848,945	4,224,930	5,073,875	4,822,801
Other	351,180	1,617,097	1,968,277	1,801,586
Total General and Administrative Expenses	1,200,125	5,842,027	7,042,152	6,624,387
Excess of Revenue Before Other Income and Expense	(1,143,618)	6,486,225	5,342,607	7,118,999
<b>OTHER INCOME AND (EXPENSES)</b>				
Interest Income	-	252,696	252,696	115,461
Interest Expense	-	(756,054)	(756,054)	(757,326)
Depreciation and Amortization	-	(15,446,743)	(15,446,743)	(14,772,304)
Total other Income and (Expenses)	-	(15,950,101)	(15,950,101)	(15,414,169)
Deficiency of Revenue Over Expenses and Loss Before Capital Contributions and Transfers	\$ (1,143,618)	\$ (9,463,876)	\$ (10,607,494)	\$ (8,295,170)

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION**  
**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**  
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>PERSONNEL AND FRINGE BENEFIT EXPENSES</b>		
Executive and Legal	\$ 1,014,511	\$ 1,024,512
Finance and Leasing	1,108,389	1,101,171
Human Resource	193,577	176,778
Development and External Affairs	507,692	549,828
Technology and Information	149,308	156,714
Building 92 and Employment Center	585,884	513,636
Payroll Taxes and Fringe Benefits	<u>1,770,340</u>	<u>1,530,939</u>
Total	5,329,701	5,053,578
Less Payroll and Related Costs Capitalized	<u>(255,826)</u>	<u>(230,777)</u>
Total Personnel and Fringe Benefit Expenses	<u>5,073,875</u>	<u>4,822,801</u>
<b>OTHER EXPENSES</b>		
Legal	468,133	311,839
Accounting and Auditing	38,450	40,600
Computer Supplies/Contract	350,394	220,857
Postage	14,234	12,932
Telephone and Communication	89,019	139,825
Director's Liability Insurance	10,000	10,000
Corporate	80,188	66,780
Board	1,581	1,063
Community Employment	242,350	189,023
Advertising and Marketing	183,034	189,138
Stationery and Office Supplies	73,376	62,163
Consultants	7,500	72,123
Gasoline	156,608	152,762
Vehicle Repairs	155,003	235,834
Payroll Processing	21,308	18,972
Education and Training	35,733	47,179
Miscellaneous	<u>140,330</u>	<u>116,573</u>
Total	2,067,241	1,887,663
Less: other Expenses Capitalized	<u>(98,964)</u>	<u>(86,077)</u>
Total Other Expenses	<u>1,968,277</u>	<u>1,801,586</u>
<b>Total General and Administrative Expenses</b>	<u><u>\$ 7,042,152</u></u>	<u><u>\$ 6,624,387</u></u>