

**BROOKLYN NAVY YARD DEVELOPMENT
CORPORATION
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT AND
SUPPLEMENTARY INFORMATION
June 30, 2012
(With comparative totals for 2011)**

**BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
 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

We have audited the accompanying financial statements of the Brooklyn Navy Yard Development Corporation ("BNYDC") as of and for the year ended June 30, 2012 as listed in the Table of Contents. These financial statements are the responsibility of the BNYDC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2011 financial statements, and in our report dated September 20, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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* as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of BNYDC's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BNYDC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brooklyn Navy Yard Development Corporation as of June 30, 2012, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 6-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The supplemental schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Deans Archer & Co

Valley Stream, New York
September 27, 2012

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

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, 2012.

Overview of BNYDC and the 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 roadways, utility distribution systems, fire hydrants, water and sewage, sanitation, snow removal, and street security. For the fiscal year ended June 30, 2012, BNYDC incurred an operating loss of (\$5,971,956). However, when depreciation and amortization (non-cash items) are factored out, BNYDC realized an excess of operating revenue over operating expenses of \$7,565,555 (\$13,537,511 less \$5,971,956). This resulted in a positive cash flow of \$6,680,333 provided by operating activities.

Financial Highlights

BNYDC's 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 \$43,466,207 at June 30, 2012
- Current assets stand at \$61,502,641 vs. current liabilities of \$14,736,396
- BNYDC operated with a working capital position of \$46.8 million on a \$32 million budget
- Investment in property and equipment grew by \$23.7 million
- BNYDC generated positive cash flows of approximately \$6.7 million from operations

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

Statement of Net Assets Analysis

	<u>2012</u>	<u>2011</u>	<u>% Increase (Decrease) 2012-2011</u>
Cash and Cash Equivalents (Including Reserve Cash)	\$ 43,466,207	\$ 44,743,852	(2.9)%
Working Capital	46,766,245	49,883,262	(6.3)%
Property and Equipment	265,700,225	241,971,911	9.8%
Total Net Assets	252,169,264	232,046,855	8.7%

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>2012</u>	<u>2011</u>	<u>% Increase (Decrease) 2012-2011</u>
Rent Revenue	\$ 25,548,677	\$ 23,561,056	8.4%
Total Operating Revenues	31,984,933	29,708,427	7.7%
Depreciation and Amortization	13,537,511	12,243,321	10.6%
Total Operating Expenses	37,956,889	36,345,314	4.4%
Total Operating Expenses Net of Depreciation and Amortization	24,419,378	24,101,993	1.3%

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2012 and 2011

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 2012. BNYDC realized an increase in rent revenues of 8.4 % mainly because the prior year's rents of \$1,834,033 on the Perry Building were waived due to contractual dispute, and the increased rents from higher base payments due to lease renewals and tenant turnover. The total operating revenues are up 7.7% for fiscal year 2012.

Expenses

Total operating expenses increased by 7.7%, due mainly to increases in personnel and fringe benefits and maintenance costs and depreciation and amortization charges. However, when depreciation and amortization charges are factored out, the operating expenses increased by only 1.3%.

Capital Infrastructure Investment

BNYDC entered into a credit agreement with New York City Regional Center to borrow up to \$60,000,000 to repay a \$25,000,000 JPMorgan Chase Bank loan and finance construction and building improvements in the Navy Yard. At the end of the fiscal year \$60,000,000 was borrowed, of which \$25,000,000 was used to repay the bank loan.

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 close to fifty years of deferred maintenance and lack of any capital investment. Another reason is the ever-escalating costs in maintaining waterfront properties, including aging bulkheads and piers that are eaten away by both time and marine life.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents (Note 4)	\$ 9,491,207	\$ 5,243,852
Reserved Cash (Note 4)	33,975,000	39,500,000
Accounts Receivables, Less Allowance for Doubtful Accounts of \$1,946,034 in 2012 and \$964,551 in 2011	2,092,784	1,387,982
Receivable from Grants and Contracts (Note 8)	15,286,084	17,691,669
Prepaid Expenses and other Current Assets	<u>657,566</u>	<u>615,398</u>
Total Current Assets	<u>61,502,641</u>	<u>64,438,901</u>
Cash-tenants' Security Deposits	2,214,921	2,181,449
Property and Equipment, Net (Note 5)	<u>265,700,225</u>	<u>241,971,911</u>
Total Assets	<u>\$ 329,417,787</u>	<u>\$ 308,592,261</u>
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable and Accrued Expenses	\$ 1,267,692	\$ 1,437,776
Deferred Revenue (Note 6)	<u>13,468,704</u>	<u>13,117,863</u>
Total Current Liabilities	14,736,396	14,555,639
Tenants' Security Deposits	2,214,921	2,181,449
Deferred Revenue (Note 6)	297,206	308,318
Development Loan (Note 10)	<u>60,000,000</u>	<u>59,500,000</u>
Total Liabilities	<u>77,248,523</u>	<u>76,545,406</u>
Net Assets (Note 2)		
Invested in Capital Assets, Net of Related Debt	205,700,225	182,471,911
Operating	<u>46,469,039</u>	<u>49,574,944</u>
Total Net Assets	<u>\$ 252,169,264</u>	<u>\$ 232,046,855</u>

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Rents	\$ 25,548,677	\$ 23,561,056
Additional Rent (Insurance Premium)	363,087	363,938
Utilities	5,163,368	5,518,277
Grants	674,020	-
Other Income	235,781	265,156
	<u>31,984,933</u>	<u>29,708,427</u>
OPERATING EXPENSES		
<i>Property Management</i>		
Personnel and Fringe Benefits	7,755,655	7,633,932
Utilities	5,684,562	6,831,658
Property Insurance	853,324	891,592
Provision for Bad Debts	1,148,526	987,389
Other Operating and Maintenance	2,708,662	2,447,045
Depreciation and Amortization	13,537,511	12,243,321
	<u>31,688,240</u>	<u>31,034,937</u>
<i>General and Administrative</i>		
Personnel and Fringe Benefits (Schedule II)	4,323,220	3,971,841
Other (Schedule II)	1,945,429	1,338,536
	<u>6,268,649</u>	<u>5,310,377</u>
	<u>37,956,889</u>	<u>36,345,314</u>
Operating Loss	(5,971,956)	(6,636,887)
NON-OPERATING REVENUE (EXPENSES)		
Interest Expense	(752,483)	(761,250)
Interest and Investment Income	28,098	48,928
	<u>(6,696,341)</u>	<u>(7,349,209)</u>
<i>Capital Contributions</i>		
City of New York Capital Budget (Note 8)	26,818,750	33,932,489
Change in Net Assets	20,122,409	26,583,280
Total Net Assets - Beginning of Year	<u>232,046,855</u>	<u>205,463,575</u>
Total Net Assets - End of Year	<u>\$ 252,169,264</u>	<u>\$ 232,046,855</u>

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Tenants	\$ 31,230,131	\$ 30,030,446
Payments to Suppliers	(15,123,293)	(14,860,848)
Payments to Employees	<u>(9,426,505)</u>	<u>(8,933,222)</u>
Net Cash Provided by Operating Activities	<u>6,680,333</u>	<u>6,236,376</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	29,564,064	25,499,434
Purchase of Capital Assets	(41,797,657)	(43,831,620)
Development Loan	<u>500,000</u>	<u>35,500,000</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(11,733,593)</u>	<u>17,167,814</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Reserve Cash Withdrawal	4,500,000	-
Interest Income	28,098	48,928
Interest Expense	<u>(752,483)</u>	<u>(761,250)</u>
Net Cash (Used) by Investing Activities	<u>3,775,615</u>	<u>(712,322)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,277,645)	22,691,868
Cash and Cash Equivalent, including Reserve Cash - Beginning of Year	<u>44,743,852</u>	<u>22,051,984</u>
Cash and Cash Equivalent, including Reserve Cash - End of Year	<u>\$ 43,466,207</u>	<u>\$ 44,743,852</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (5,971,956)	\$ (6,636,887)
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided by Operating Activities:		
Noncash Rental Income	(50,000)	(75,000)
Depreciation and Amortization	13,537,511	12,243,321
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Receivable Net	(704,802)	397,019
(Increase) in Prepaid Expenses and other Current Assets	(42,168)	(3,915)
Increase (Decrease) in Accounts Payable and Accrued Expenses	<u>(88,252)</u>	<u>311,838</u>
Net Cash Provided by Operating Activities	<u>\$ 6,680,333</u>	<u>\$ 6,236,376</u>
SUPPLEMENTAL DISCLOSURE		
Interest Paid and Capitalized	<u>\$ 1,077,417</u>	<u>\$ 795,728</u>

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

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

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.

The Mayor of The City of New York appoints the majority of the members of the Board of Directors. 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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.

Property and Lease-hold Improvements

Machinery, office equipment, lease-hold 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:

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Concentration of Credit Risk

BNYDC invests its excess 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 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.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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

Income Taxes

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

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

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

Generally the Internal revenue Service (IRS) may examine a tax return for three years from the date it is filed. At June 30, 2012, tax years ended June 30, 2011, 2010 and 2009 remained open for possible examination by the IRS.

Prior Year Summarized Information

The 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, 2011, from which the summarized information was derived.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing the 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.

Subsequent Events (ASC 820)

In connection with the preparation of the 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, 2012 through September 27, 2012, which was the date the financial statements were available to be issued. BNYDC is not aware of any subsequent events that require recognition or disclosure in the financial statements.

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

The 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 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>2012</u>	<u>2011</u>
Nonspendable	\$ 657,566	\$ 615,398
Restricted	500,000	5,000,000
Committed	205,700,225	182,471,911
Assigned	33,475,000	34,500,000
Unassigned	<u>11,836,473</u>	<u>9,459,546</u>
Total Fund Balance	<u>\$ 252,169,264</u>	<u>\$ 232,046,855</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

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, 2012 and 2011 was \$807,107 and \$827,399, respectively.

NOTE 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	<u>2012</u>	<u>2011</u>
FDIC Insured/Government Securities	\$ 9,491,207	\$ 5,192,234
Uninsured	<u>-</u>	<u>51,618</u>
	<u>\$ 9,491,207</u>	<u>\$ 5,243,852</u>

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

<u>Reserved Cash</u>	<u>2012</u>	<u>2011</u>
Construction and Building Improvements	\$ 33,475,000	\$ 34,500,000
The City of New York	<u>500,000</u>	<u>5,000,000</u>
	<u>\$ 33,975,000</u>	<u>\$ 39,500,000</u>

Cash reserved for construction and building improvements at June 30, 2012 and June 30, 2011 was \$33,475,000 and \$34,500,000 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 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 as of June 30, 2012.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5. PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following:

	<u>2012</u>	<u>2011</u>
Machinery and Automobiles	\$ 2,873,557	\$ 2,732,087
Office Equipment	1,080,945	963,531
Leasehold Improvements, Buildings, Water/Sewer	<u>361,658,493</u>	<u>324,706,996</u>
Total	365,612,995	328,402,614
Less: Accumulated Depreciation	<u>(99,912,770)</u>	<u>(86,430,703)</u>
Net: Property and Equipment	<u>\$ 265,700,225</u>	<u>\$ 241,971,911</u>

Depreciation expense for 2012 and 2011 amounted to \$13,537,511 and \$12,243,321, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 6. DEFERRED REVENUE

At June 30, 2012, Deferred Revenue relates to:

	<u>Current</u>	<u>Noncurrent</u>
Contract with The City of New York for the Rehabilitation of Capital Assets	\$ 13,427,592	\$ -
Brooklyn Navy Yard Center 92	30,000	-
Forty-five (45) year Lease Agreement with Cogeneration Partners	<u>11,112</u>	<u>297,206</u>
Total	<u>\$ 13,468,704</u>	<u>\$ 297,206</u>

At June 30, 2011, Deferred Revenue relates to:

	<u>Current</u>	<u>Noncurrent</u>
Contract with The City of New York for the Rehabilitation of Capital Assets	\$ 12,954,941	\$ -
Brooklyn Navy Yard Center 92	151,810	-
Forty-five (45) year Lease Agreement with Cogeneration Partners	<u>11,112</u>	<u>308,318</u>
Total	<u>\$ 13,117,863</u>	<u>\$ 308,318</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7. 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 (iii) of the Lease), or (ii) in such other amount as may be agreed to in writing by the parties with respect to a specific Lease Year. The Management Contract between The City of New York and BNYDC, covering FY 2012, provides that if BNYDC maintains a balance of \$5,000,000 in its Reserve Fund, then the Base Rent under the Lease for FY 2012 is zero. As discussed in Note 4 above, the cash balance as of June 30, 2012 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 2012 remains at zero.

NOTE 8. CITY OF NEW YORK CAPITAL BUDGET

On June 30, 1996, BNYDC entered into a management contract 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, 2012 and 2011, BNYDC recognized \$26,818,750 and \$33,932,489, respectively, as capital contributions for rehabilitation work completed. Furthermore, the receivable from The City of New York for the rehabilitation work at June 30, 2012 and 2011 was \$15,286,084 and \$17,691,669, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 9. LEASES WITH TENANTS

BNYDC has lease commitments from commercial tenants for space for periods ranging from one to fifty-eight (58) years. Minimum future rental income from those leases are:

2013	\$ 23,832,000
2014	22,002,000
2015	19,792,000
2016	17,913,000
2017	16,056,000
2018-2022	60,649,000
2023-2027	43,589,000
2028-2032	36,547,000
2033-2037	38,014,000
2038-2042	20,766,000
2043-2047	29,890,000
2048-2052	33,264,000
2053-2057	36,591,000
2058-2062	40,228,200
2063-2067	44,769,000
2068-2069	<u>19,117,000</u>
	<u>\$ 503,019,200</u>

NOTE 10. DEVELOPMENT LOAN

On October 2, 2009 BNYDC entered into a credit agreement with New York City Regional Center to borrow up to \$60,000,000 to repay a \$25,000,000 JPMorgan Chase Bank loan and finance construction and building improvements 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 August 17, 2016 which is the fifth anniversary of the last advance of the loan. The collateral for this loan is the assignment of future rents. As of June 30, 2012 and 2011, the total amounts borrowed were \$60,000,000 and \$59,500,000, respectively.

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 11. PERRY BUILDING/SURROUND ART MANAGEMENT, LLC

Surround Art Management, LLC leased the newly constructed Perry Building with rent payments that should have started in January 2010. As a result of construction problems with the building, a settlement was negotiated that included:

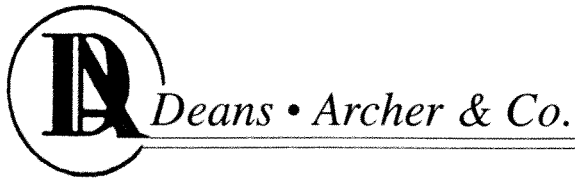
- i. BNYDC waived \$2,735,269 rents through June 2011; \$901,236 against the Allowance for Doubtful Accounts provided for during fiscal year 2010 and \$1,834,033 against the FY 2011 rents; and
- ii. Surround Art released BNYDC of any and all claims arising from the condition and corresponding late delivery of the building.

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 these matters was not determinable at June 30, 2012 while certain of these matters involve substantial amounts, 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 the financial statements of Brooklyn Navy Yard Development Corporation, (“BNYDC”), a nonprofit organization, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of Brooklyn Navy Yard Development Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Brooklyn Navy Yard Development Corporation’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brooklyn Navy Yard Development Corporation’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BNYDC’s internal control over financial reporting.

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 financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in

internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn Navy Yard Development Corporation's financial statements are free of 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 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*.

This report is intended solely for the information and use of the Finance Committee, Board of Directors, Management, The City of New York, others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Deans Archer & Co

Valley Stream, New York
September 27, 2012

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION **Schedule I**
SCHEDULE OF PROPERTY MANAGEMENT REVENUE AND EXPENSES
For the year ended June 30, 2012
(With comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
REVENUE	\$ 31,984,933	\$ 29,708,427
<i>Direct Expenses</i>		
Electricity Purchased	3,801,491	4,856,811
Steam Purchased	1,295,502	1,472,990
Water Purchased	587,569	501,857
Payroll and Related Fringe Benefits:		
Protective Services	2,745,684	2,621,329
Maintenance and Engineering	2,396,012	2,404,802
Utilities	266,224	282,008
Fringe Benefits	2,347,735	2,325,793
<i>Other Direct Expenses</i>		
Materials and Supplies and Building Maintenance	2,708,662	2,447,045
Property Insurance	853,324	891,592
Bad Debt	1,148,526	987,389
Total Direct Expenses	<u>18,150,729</u>	<u>18,791,616</u>
Revenue from Operations	<u>13,834,204</u>	<u>10,916,811</u>
<i>General and Administrative Expenses</i>		
Personnel and Fringe Benefits	4,323,220	3,971,841
Other	1,945,429	1,338,536
Total General and Administrative Expenses	<u>6,268,649</u>	<u>5,310,377</u>
Excess of Revenue Before Other Income and Expense	<u>7,565,555</u>	<u>5,606,434</u>
OTHER INCOME AND (EXPENSES)		
Interest Income	28,098	48,928
Interest Expense	(752,483)	(761,250)
Depreciation and Amortization	<u>(13,537,511)</u>	<u>(12,243,321)</u>
Total other Income and (Expenses)	<u>(14,261,896)</u>	<u>(12,955,643)</u>
Deficiency of Revenue Over Expenses and Loss Before Capital Contributions and Transfers	<u>\$ (6,696,341)</u>	<u>\$ (7,349,209)</u>

BROOKLYN NAVY YARD DEVELOPMENT CORPORATION Schedule II
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
PERSONNEL AND FRINGE BENEFIT EXPENSES		
Executive and Legal	\$ 911,331	\$ 918,397
Finance and Leasing	1,063,086	1,106,494
Human Resource	161,494	124,993
Development and External Affairs	456,250	401,051
Technology and Information	198,397	195,638
Building 92 and Employment Center	390,213	265,805
Payroll Taxes and Fringe Benefits	<u>1,380,772</u>	<u>1,230,604</u>
Total	4,561,543	4,242,982
Less Payroll and Related Costs Capitalized	<u>(238,323)</u>	<u>(271,141)</u>
Total Personnel and Fringe Benefit Expenses	<u>4,323,220</u>	<u>3,971,841</u>
OTHER EXPENSES		
Legal	563,322	199,087
Accounting and Auditing	37,450	35,925
Computer Supplies/Contract	223,171	168,368
Postage	11,436	8,922
Telephone and Communication	112,895	106,316
Director's Liability Insurance	10,000	10,000
Corporate	58,466	42,359
Board	998	1,299
Community Employment	147,237	89,428
Advertising and Marketing	234,777	174,374
Stationery and Office Supplies	65,575	74,382
Consultants	61,875	-
Gasoline	137,468	128,950
Auto	237,870	214,607
Payroll Processing	16,800	22,092
Education and Training	39,510	25,215
Settlement and Award	-	72,500
Miscellaneous	<u>93,940</u>	<u>59,261</u>
Total	2,052,790	1,433,085
Less: other Expenses Capitalized	<u>(107,361)</u>	<u>(94,549)</u>
Total Other Expenses	<u>1,945,429</u>	<u>1,338,536</u>
Total General and Administrative Expenses	<u>\$ 6,268,649</u>	<u>\$ 5,310,377</u>