

Yonkers Economic Development Corporation

Financial Statements

December 31, 2016 and 2015

Yonkers Economic Development Corporation

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Independent Auditors' Report

**Board of Directors
Yonkers Economic Development Corporation**

Report on the Financial Statements

We have audited the accompanying financial statements of Yonkers Economic Development Corporation ("Corporation"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of indebtedness, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017 on our consideration of the Corporation's internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
March 28, 2017

Yonkers Economic Development Corporation

Management's Discussion and Analysis
December 31, 2016

The following Management's Discussion and Analysis ("MD&A") of Yonkers Economic Development Corporation's (the "Corporation") ("YEDC") activities and financial performance is provided as an introduction and overview of the financial statements of the Corporation for the year ended December 31, 2016. Following this MD&A are the annual financial statements of the Corporation together with the notes to the financial statements which are important to understanding the data presented in the financial statements. This MD&A highlights certain supplementary information to assist with the understanding of the Corporation's financial operations.

Operations

The Corporation is a local development corporation and operates for the benefit of the City of Yonkers, New York (the "City") and its populace to accomplish any or all of the purposes specified in the by-laws. Specific powers and duties are conferred to the Corporation with respect to bond issuances within the corporate limits of the City. All of the local zoning and planning regulations, as well as the regional and local comprehensive land use plans, are taken into consideration to carry out the duties of the Corporation.

Organized in a manner consistent with the Federal Section 115 status and New York State Public Authorities laws, the Mayor of the City is the sole member and appoints up to seven Board of Directors which is comprised of both public officials and business leaders. The current Board is comprised of four board members from the Yonkers Industrial Development Agency ("YIDA"). This Board governs the Corporation by establishing official policies and reviewing and approving requests for bond transactions. Operations and activities of the Corporation, its members, officers and employees are carried out in accordance with New York State law. In addition, the Corporation complies with the Public Authorities Accountability Act of New York, as set forth within Article 4-A of the New York Executive Law.

The Corporation's mission is to assist YIDA in economic development and job growth throughout the City by providing certain taxable and tax exempt financial assistance on occasions where these incentives are no longer provided by YIDA or in instances where YIDA's ability to assist economic development projects has been significantly limited. In addition, the debt issuances of the Corporation will not be liabilities of the State of New York, the City or YIDA.

No applications were submitted or processed during the year and one project closed:

- YEDC provided mortgage recording tax exemption to RXR Rising in 2016. The total mortgage amount of \$126.9M was granted a total exemption amount of \$2.38M.

Yonkers Economic Development Corporation

Management's Discussion and Analysis
December 31, 2016

Financial Operations Highlights

The detailed financial statements for the years ended December 31, 2016 and 2015 follow the MD&A. The chart below provides a condensed summary of revenues and expenses for the 2016 and 2015 calendar years.

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Management fees	\$ -	\$ 70,000
Agency Fees (Leake & Watts/CSEE)	2,500	-
Miscellaneous Fees	4,901	2,000
Non-Operating Revenues		
Interest	231,854	178,143
Other	<u>175,257</u>	<u>-</u>
Total Operating and Non-Operating Revenues	<u>\$ 414,512</u>	<u>\$ 250,143</u>

Grants

Larkin Garage (2011) \$7,996,000

Revenue received from the City and State sources totaling \$7,996,000 was used along with proceeds of a loan to the Corporation in the amount of \$2,629,000 to induce additional funding in the form of New Market Tax Credits totaling \$3,822,000. These funds have been loaned to finance the Larkin Garage Project.

Warburton Wells (prior years) \$2,919,054

Revenue received from New York State RESTORE NY, where the Corporation was a sub-recipient, totaling \$2,919,054 was used along with non-Corporation funding sources in the amount of \$4,930,000 to induce additional New Market Tax Credit funding of \$3,000,000. These funds were loaned to finance the Warburton Wells Project.

Operating Revenue

Agency Fees

The Corporation received one agency fee in 2016 for \$2,500. In 2015, no projects were closed on and therefore the Corporation received no agency fees.

Yonkers Economic Development Corporation

Management's Discussion and Analysis
Years Ended December 31, 2016

Management Fees

The Corporation had no employees in 2016, therefore there is no longer a management agreement. The Corporation, in accordance with a management services agreement, provided administrative and management services for YIDA in 2015. Based on that agreement, the Corporation received a management fee from the Yonkers Industrial Development Agency of \$70,000 for the year ended December 31, 2015.

Assets, Liabilities and Net Position

At year end, the Corporation had \$13,746,598 in assets, \$2,450,569 in liabilities, and an unrestricted net position of \$11,296,029. A complete breakdown of these amounts is provided in the financial statements.

Supplementary Information

The Schedule of Indebtedness - Industrial Revenue Bonds and Notes Issued, Outstanding or Retired is provided as supplementary information to the financial statements. This supplementary information is located following the notes to the financial statements.

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest in the Corporation finances. Questions and comments concerning any information provided in this report or requests for additional information should be addressed to the Executive Director, Yonkers Economic Development Corporation, 470 Nepperhan Avenue, Suite 200, Yonkers, New York 10701.

Yonkers Economic Development Corporation

Statements of Net Position

	December 31,	
	2016	2015
ASSETS		
Cash	\$ 101,191	\$ 248,854
Accounts receivable	-	6,608
Accrued interest receivable	126,728	58,422
Prepaid expenses	1,625	2,747
Notes receivable	13,517,054	13,517,054
	<u>\$ 13,746,598</u>	<u>\$ 13,833,685</u>
LIABILITIES		
Accounts payable	\$ 18,900	\$ 22,557
Accrued interest payable	35,477	-
Accrued expenses	-	121,547
Loan payable	2,396,192	2,629,000
Total Liabilities	2,450,569	2,773,104
NET POSITION		
Unrestricted	11,296,029	11,060,581
	<u>\$ 13,746,598</u>	<u>\$ 13,833,685</u>

See notes to financial statements

Yonkers Economic Development Corporation

Statements of Activities

	Year Ended December 31,	
	2016	2015
OPERATING REVENUES		
Management fees	\$ -	\$ 70,000
Agency fees	2,500	-
Miscellaneous fees	4,901	2,000
	7,401	72,000
OPERATING EXPENSES		
Salaries	-	82,203
Payroll taxes and employee benefits	357	30,019
Professional fees	19,250	17,500
Community relations	-	300
Insurance	7,623	10,985
Miscellaneous	1,508	25,235
	28,738	166,242
Total Operating Expenses	28,738	166,242
Loss from Operations	(21,337)	(94,242)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	231,854	178,143
Interest expense	(150,326)	(141,265)
Other income	175,257	-
	256,785	36,878
Total Non-Operating Revenues	256,785	36,878
Change in Net Position	235,448	(57,364)
NET POSITION		
Beginning of year	11,060,581	11,117,945
End of year	\$ 11,296,029	\$ 11,060,581

See notes to financial statements

Yonkers Economic Development Corporation

Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from services rendered	\$ 67,719	\$ 65,392
Cash payments for salaries and benefits	(357)	(112,222)
Cash payments for goods and services	(30,916)	(32,880)
Net Cash from Operating Activities	36,446	(79,710)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on debt	(232,808)	-
Interest paid on debt	(114,849)	(180,189)
Net Cash from Capital and Related Financing Activities	(347,657)	(180,189)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	163,548	217,258
Net Change in Cash	(147,663)	(42,641)
CASH		
Beginning of year	248,854	291,495
End of year	\$ 101,191	\$ 248,854
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Loss from operations	\$ (21,337)	\$ (94,242)
Adjustments to reconcile loss from operations to net cash from operating activities		
Reduction of accrued expenses	175,257	-
Changes in operating assets and liabilities		
Accounts receivable	6,608	(6,608)
Prepaid expenses	1,122	953
Accounts payable	(3,657)	(2,097)
Accrued expenses	(121,547)	22,284
Net Cash from Operating Activities	\$ 36,446	\$ (79,710)

See notes to financial statements

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2016 and 2015

1. Organization and Purpose

The Yonkers Economic Development Corporation (“Corporation”) was created in 2007 as a local development corporation by the City of Yonkers, New York (“City”) under the provisions of the IRS Section 115 for the purpose of assisting the Yonkers Industrial Development Agency (“YIDA”) with promoting and supporting the development of commerce, bolstering employment and stimulating economic growth and prosperity in the City. The Corporation is governed by Article 18-A of the General Municipal Law of the State of New York. The Corporation is exempt from Federal, State and local income taxes. The Corporation, although supported by YIDA, is a separate entity and operates cooperatively with YIDA. The Mayor of the City is the sole member of the Corporation and appoints the governing board for specified terms.

2. Summary of Significant Accounting Policies

Financial Reporting Entity

The Corporation has been identified as an organization related to the City. In accordance with the criteria enumerated in Governmental Accounting Standards Board (“GASB”) Statement No. 61, the Corporation is not considered a component unit of the City.

Basis of Accounting

The accounting policies of the Corporation conform to generally accepted accounting principles as applicable to governmental units. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Corporation reports its operations on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Cash

Cash consists of funds deposited in demand deposit accounts. Collateral is required for these deposits at 100% of all deposits not covered by Federal deposit insurance. The Corporation has entered into a custodial agreement with its depository which holds its deposits. This agreement authorizes the obligations that may be pledged as collateral. Such obligations include among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (*continued*)

Cash (continued)

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust department but not in the Corporation's name. The Corporation's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2016 and 2015.

The Corporation was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate or credit risk.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific known troubled accounts. At December 31, 2016 and 2015, management has concluded that an allowance is not required.

Revenue Recognition

The Corporation charges an agency fee based on the amount of financing for each project at a predetermined rate. All such agency fees are collected and recognized as revenue at closing.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use. The net position of the Corporation on the statements of net position is classified as unrestricted.

Accounting for Uncertainty in Income Taxes

The Corporation recognizes the effect of income tax positions only if the positions are more likely than not to be sustained. Management has determined that the Corporation had no uncertain tax positions that would require financial statement recognition or disclosure. The Corporation is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to December 31, 2013.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 28, 2017.

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2016 and 2015

3. Loan Payable

The Corporation has a loan payable to YIDA which bears interest at prime plus 2.0%, but in no event less than 6.5% for the period through June 2018 at which time the rate will be fixed at the greater of 6.5% or 2.5% in excess of the five-year Federal Home Loan Bank of New York Regular Fixed Advance Rate, per annum. In 2015, this loan was payable to a bank. The loan is secured by a ground lease on property located at 10 Woodworth Avenue, Yonkers, New York, a first lien mortgage on property located at Warburton Avenue, Yonkers, New York, a first lien assignment of the upper tier loan agreement and related qualified equity investment in Solomon Hess New Market Tax Credit ("NMTC") III, LLC and operating agreement of Solomon Hess NMTC III, LLC relating to the Larkin Garage (see note 5). Interest is due quarterly through its maturity in June 2023 at which time the entire principal amount is due. The principal balance outstanding at December 31, 2016 and 2015 was \$2,396,192 and \$2,629,000. Interest expense was \$150,326 and \$141,265 for the years ended December 31, 2016 and 2015.

4. Industrial Revenue Bond and Note Transactions

Certain bonds and notes issued by the Corporation are secured by property which is leased to companies and are retired by lease payments. The bonds and notes are not obligations of the Corporation, the City or New York State. The Corporation does not record the assets or liabilities resulting from completed bond and note issues in its accounts, since its primary function is to arrange the financing between the borrowing companies and the bond and note holders and funds arising therefrom are controlled by trustees or banks acting as fiscal agents. Trustees maintain the information for these bonds and notes and no default notices have been generated in the current year. For providing this service, the Corporation receives bond administration fees from the borrowing companies. The fee received by the Corporation is one percent of the bond amount. Such administrative fee income is recognized immediately upon issuance of bonds and notes.

5. Economic Development Projects

Larkin Garage

The Corporation received aggregate funding of \$7,969,000 from City, County and State grant sources then borrowed under a Financial Assistance Agreement with the Yonkers Community Development Agency ("YCDA") \$2,629,000 from Sterling National Bank (formerly known as Hudson Valley Bank) such that the Corporation could make a \$10,598,000 loan to Yonkers Capital Fund, LLC in a manner that qualified Yonkers Capital Fund, LLC for a NMTC investment of \$3,822,000 and transferred the obligation to build and operate a 300 space public access parking garage to private parties. In February 2016, YIDA purchased the outstanding bank loan from Sterling National Bank.

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2016 and 2015

5. Economic Development Projects (*continued*)

Larkin Garage (continued)

Yonkers Capital Fund, LLC (referred to as the "Upper Tier Fund", or "Investment Fund" when describing the NMTC structure) used the proceeds of the \$10,598,000 loan and the \$3,822,000 NMTC investment to make a \$14,420,000 Qualified Equity Investment in Solomon Hess NMTC III, LLC and said entity thereafter made a "lower tier loan" to Yonkers Larkin Garage, Inc. (a private not for profit entity not controlled by the City) which will develop and cause a 300 space public access parking garage to be constructed and operated. After seven years, Solomon Hess NMTC III, LLC will liquidate and distribute its lower tier loan to Yonkers Capital Fund, LLC. Thereafter, Yonkers Capital Fund, LLC will offer the lower tier loans it receives as a liquidating payment to the Corporation in satisfaction of its \$10,598,000 loan from the Corporation.

Warburton Wells Historic

The Corporation used the proceeds from an Empire State Development Corporation ("ESDC") RESTORE Grant to make a "leverage" loan to Greenline Leverage Fund II, LLC ("Investment Fund") in the amount of \$2,919,054. These funds were received through the sub-recipient agreement with the City and the ESDC and were required to be deposited in escrow with New York Title. Greenline Leverage Fund II, LLC also received the following loans:

Leverage Lender 1, WWLL LLC	\$3,383,946
Leverage Lender 2, City of HOME	\$1,000,000

The investment Fund used the combined loans of \$7,303,000 to reimburse Citibank, NA for a 2011 loan to its affiliate from an initial equity contribution to recapitalize itself and to continue a Qualified Equity Investment in Greenline CDF Subfund-XIV LLC-QEII (sub CDE) that was originally made in 2011. This enabled an initial advance to the Warburton Wells Developer LLC ("QALICB") of \$5,972,851 with respect to the Notes A-C and \$900,000 with respect to Note D and \$2,627,149 with respect to Note E pursuant to a construction agreement between Sub CDE and the QALICB ("QLICB Loan Agreement").

The remaining \$108,095 balance with respect to Notes A-C, \$100,000 with respect to Note 4, and \$291,905 with respect to Note E remained in the Sub-CDE account until October 1, 2012 when it was transferred to the QALICB disbursement account. After a 7 year period, the Sub-CDE will liquidate and distribute its interests in the Notes A-E and related construction loan agreement to the Investment Fund and the Investment Fund will dissolve and offer the Notes A-E and the related construction loan agreement in satisfaction of its loans from the Corporation, Leveraged Lender 1 and Leveraged Lender 2 ("Upper Tier Leveraged Lenders"). The Upper Tier Lenders are parties to an inter-creditor agreement that establishes certain priorities of repayment with the Corporation holding a subordinate interest and right of payment from the Investment Fund payments during the 7 year period and when the Notes A-E and related construction loan agreement are received by the Upper Tier Lenders such that the pro forma shows certain circumstances under which the Corporation will receive repayment of the loan made to the Investment Fund but payment is on a subordinate basis to the claims of the other Upper Tier Lenders.

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2016 and 2015

5. Economic Development Projects (*continued*)

Cromwell Towers

A \$38,987,037 Multi-Family Housing Revenue Note (Cromwell Towers Apartments Limited Partnership Project), Series 2011 was issued pursuant to a bond resolution, adopted by the Board of the Corporation on October 26, 2011 and a resolution of the City Council dated December 2, 2011. The project involves an approximately 2.35 acre parcel of land located at 77 Locust Hill Avenue, Yonkers, New York; rehabilitation of the 100% affordable existing housing complex containing approximately forty-six (46) one-bedroom apartments, one hundred ninety-eight (198) two-bedroom apartments and seventy-three (73) three-bedroom apartments which, in accordance with the Internal Revenue Code of 1986, as amended, will be leased to households earning no more than 60% of the area median gross income. This supports the City's effort to revitalize problem areas removing barriers to successful industrial development.

Notes receivable at December 31, 2016 and 2015 is as follows:

Larkin Garage	\$ 10,598,000
Warburton Wells Historic	<u>2,919,054</u>
	<u>\$ 13,517,054</u>

6. Contractual Services

The Corporation, in accordance with a management services agreement, provided administrative and management services for YIDA. Based on this agreement, the Corporation received a management fee from YIDA of \$70,000 for the year ended December 31, 2015. This agreement ended as of December 31, 2015. Therefore, no management fee was received during the year ended December 31, 2016.

7. Risk Management

The Corporation purchases conventional insurance coverage for directors and officers liability. The current policy reflects a limit of \$1 million per occurrence or \$1 million for the period of the policy.

Yonkers Economic Development Corporation

Supplementary Information

December 31, 2016

Yonkers Economic Development Corporation

Schedule of Indebtedness - Industrial Revenue Bonds and Notes Issued, Outstanding or Retired
December 31, 2016

Project	Date of Issue	Original Issue Value	Balance at January 1, 2016	New Issues	Payments	Balance at December 31, 2016
Riverview II	May 2010	\$ 27,350,000	\$ 22,775,000	\$ -	\$ 990,000	\$ 21,785,000
Charter School of Excellence (Series A)	Nov 2010	11,735,000	11,735,000	-	200,000	11,535,000
Charter School of Excellence (Series B)	Nov 2010	710,000	10,000	-	10,000	-
Leake & Watts (Series A)	June 2014	16,670,000	15,425,000	-	915,000	14,510,000
Leake & Watts (Series B)	June 2014	1,240,000	900,000	-	195,000	705,000
Leake & Watts (Series C)	June 2014	3,125,000	2,850,000	-	240,000	2,610,000
Leake & Watts (Series D)	June 2014	138,000	108,000	-	24,000	84,000
Total Indebtedness		\$ 60,968,000	\$ 53,803,000	\$ -	\$ 2,574,000	\$ 51,229,000



**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**

Independent Auditors' Report

**Board of Directors
Yonkers Economic Development Corporation**

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 financial statements of Yonkers Economic Development Corporation ("Corporation") which comprise the statement of net position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation's 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 the Corporation's 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 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 entity'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP
Harrison, New York
March 28, 2017