

Yonkers Economic Development Corporation

Financial Statements
With Supplementary Information

December 31, 2012 and 2011

Independent Auditors' Report

**Board of Directors
Yonkers Economic Development Corporation**

We have audited the accompanying financial statements of the Yonkers Economic Development Corporation (the "Corporation") a component unit of the City of Yonkers, New York, (the "City") as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Corporation's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

**Board of Directors
Yonkers Economic Development Corporation**

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation, as of December 31, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Industrial Revenue Bonds and Notes Issued, 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 and/or others who consider 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2013 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.

O'Connor Davies, LLP

Harrison, New York
March 27, 2013

Yonkers Economic Development Corporation

Management's Discussion and Analysis Years Ended December 31, 2012 and 2011

The following Management's Discussion and Analysis ("MD&A") of Yonkers Economic Development Corporation's (the "Corporation") activities and financial performance is provided as an introduction and overview of the financial statements of the Corporation for the years ended December 31, 2012 and 2011. 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 NYS Public Authorities laws, the Mayor of Yonkers 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 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 no projects closed.

Yonkers Economic Development Corporation

Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Financial Operations Highlights

The detailed financial statements for the years ended December 31, 2012 and 2011 follow the MD&A. The chart below provides a condensed summary of revenues and expenses for the 2012 and 2011 calendar years.

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Grants	\$ -	\$10,915,054
Agency fees	-	444,595
Interest	<u>231,895</u>	<u>87,507</u>
	<u>\$ 231,895</u>	<u>\$11,447,156</u>

2011 Grants

Larkin Garage \$7,996,000

Revenue received from the City and State sources totaling \$7,996,000 were 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 \$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.

Agency Fees

No projects closed in 2012; therefore no agency fees were received.

Operating Expenses

A Management Agreement, dated December 21, 2011, exists between the Corporation and YIDA for management and administrative services. Based on the agreement, the Corporation remits an annual management fee to YIDA for all revenues in excess of \$210,000. There were no management fees paid to YIDA in 2012. Management fees totaling \$234,595 were paid to YIDA in 2011.

NOTE: A new agreement between the Corporation and YIDA was executed on December 11, 2012 and will commence in 2013. The new agreement states that YEDC will pay no more than \$70,000 per year for management and administrative services provided by YIDA.

Yonkers Economic Development Corporation

Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Agency Fees (continued)

Assets and Liabilities

At year end the Corporation had \$13,748,984 in assets and \$2,692,165 in liabilities. A complete breakdown of these amounts is provided in the financial statements.

Industrial Revenue Bonds and Notes

The Schedule of Industrial Revenue Bonds and Notes Issued is provided as supplemental information to the financial statements.

Yonkers Economic Development Corporation

Statements of Net Position

	December 31,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 163,583	\$ 210,000
Accounts receivable	-	34,062
Accrued interest receivable	68,347	53,711
Notes receivable	<u>13,517,054</u>	<u>13,517,054</u>
	<u>\$ 13,748,984</u>	<u>\$ 13,814,827</u>
LIABILITIES		
Accounts payable	\$ 10,000	\$ 85,987
Accrued interest payable	53,165	12,534
Loan payable	<u>2,629,000</u>	<u>2,629,000</u>
Total Liabilities	2,692,165	2,727,521
NET POSITION		
Unrestricted	<u>11,056,819</u>	<u>11,087,306</u>
	<u>\$ 13,748,984</u>	<u>\$ 13,814,827</u>

See notes to financial statements

Yonkers Economic Development Corporation

Statements of Activities

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Grants	\$ -	\$ 10,915,054
Agency fees	-	444,595
Interest	<u>231,895</u>	<u>87,507</u>
Total Operating Revenue	<u>231,895</u>	<u>11,447,156</u>
 OPERATING EXPENSES		
Management fee	-	234,595
Professional fees	22,812	38,000
Community relations	41,105	-
Insurance	1,040	-
Interest	192,389	87,255
Miscellaneous	<u>5,036</u>	<u>-</u>
Total Operating Expenses	<u>262,382</u>	<u>359,850</u>
(Loss) gain from operations	(30,487)	11,087,306
 NET POSITION		
Beginning of year	<u>11,087,306</u>	<u>-</u>
End of year	<u>\$ 11,056,819</u>	<u>\$ 11,087,306</u>

See notes to financial statements

Yonkers Economic Development Corporation

Statements of Cash Flows

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 265,957	\$ 498,040
Cash received from grants	(207,025)	(2,742,966)
Cash payments for goods and services	<u>(105,349)</u>	<u>(174,074)</u>
Net Cash from Operating Activities	<u>(46,417)</u>	<u>(2,419,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from loan payable	<u>-</u>	<u>2,629,000</u>
Net Change in Cash and Cash Equivalents	(46,417)	210,000
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>210,000</u>	<u>-</u>
End of year	<u>\$ 163,583</u>	<u>\$ 210,000</u>
RECONCILIATION OF (LOSS) GAIN FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
(Loss) gain from operations	(30,487)	11,087,306
Adjustments to reconcile (loss) gain from operations to net cash from operating activities		
Changes in operating assets and liabilities		
Accounts receivable	34,062	(34,062)
Accrued interest receivable	(14,636)	(53,711)
Notes receivables	-	(13,517,054)
Accounts payable	(75,987)	85,987
Accrued interest payable	<u>40,631</u>	<u>12,534</u>
Net Cash from Operating Activities	<u>\$ (46,417)</u>	<u>\$ (2,419,000)</u>

See notes to financial statements

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2012 and 2011

Note 1 – Organization

The Yonkers Economic Development Corporation (the "Corporation") was created in 2007 as a local development corporation by the City of Yonkers, New York (the "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.

Note 2 – Summary of Significant Accounting Policies

Financial Reporting Entity

The Corporation has been identified as a component unit of the City. In accordance with the criteria enumerated in Governmental Accounting Standards Board ("GASB") Statement No. 14, the Corporation's financial statements are discretely presented in the City's financial statements.

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. The Corporation applies all applicable Financial Accounting Standards Board ("FASB") guidance issued after November 30, 1989 in its accounting and reporting.

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.

Application of Accounting Standards

For the year ended December 31, 2012, the Corporation implemented GASB Statement No. 63 "Financial Reporting of Deferred Outflow of Resources, Net Position" ("GASB Statement No. 63"). This statement provides financial reporting guidance for these elements first introduced in GASB Concept Statement No.4, "Elements of Financial Statements". Previous financial reporting standards did not include guidance for reporting these financial statement elements, which are distinct from assets and liabilities.

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Equivalents

Cash and cash equivalents consist of funds deposited in time deposit accounts, demand deposit accounts and certificates of deposit with original maturities of less than three months. Collateral is required for these deposits at 100% of all deposits not covered by Federal deposit insurance. The Agency 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.

Custodial credit risk is the risk that in the event of a bank failure, the Agency'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 Agency's name. The Agency's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2012.

Fair Value of Financial Instruments

The Corporation follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

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, 2012 and 2011, management has concluded that an allowance is not required.

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 either through the enabling legislation adopted by the Corporation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments on the statement of net position. The net position of the Corporation on the statement of net position is classified as unrestricted.

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 27, 2013.

Yonkers Economic Development Corporation

Notes to Financial Statements
December 31, 2012 and 2011

Note 3 - Loan Payable

The Corporation has a loan payable to a bank which bears interest at prime plus 2.0% for the period June 2011 to June 2018 at which time the rate will be fixed at 6.5% per annum but in no event less than 6.5%. 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 NMTC III, LLC and operating agreement of Solomon Hess NMTC III, LLC (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, 2012 and December 31, 2011 was \$2,629,000. Interest expense was \$192,389 and \$87,255 for the years ended December 31, 2012 and 2011.

Note 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, Agency, 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 there-from 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.

Note 5 - Economic Development Projects

Larkin Garage

As part of the 2011 City Urban Renewal Plan, the City desired to daylight the Saw Mill River at Larkin Plaza which displaced 144 public parking spaces and at the same time permitted approximately 92 units of affordable housing to be developed without parking on a nearby site. In order to accommodate both the 144 spaces displaced and the 92 spaces for affordable housing, the City needed a City controlled entity to aggregate funding sources to provide 300 public access parking spaces, which was estimated to be upwards of a \$14,000,000 project with aggregated public resources of only \$7,969,000.

This project was deemed to serve an essential governmental function: to restore parking spaces that were displaced as a result of the City Urban Renewal Plan and to encourage future economic development in the area. Due to numerous state and local limitations, the Corporation was determined by the City to be the best qualified City controlled entity to aggregate funding of \$7,969,000 from City, County and State grant sources. The Corporation received said amount under a Financial Assistance Agreement with the Yonkers Community Development Agency ("YCDA") which required the Corporation to find additional sources and parties to complete the contemplated \$14 million public access project. Upon receipt of said funds and upon taking on

Yonkers Economic Development Corporation

Notes to Financial Statement
December 31, 2012 and 2011

Note 5 - Economic Development Projects (continued)

Larkin Garage (continued)

said obligations, the Corporation borrowed an additional \$2,629,000 from 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 New Market Tax Credit ("NMTC") Investment of \$3,822,000 and transferred the obligation to build and operate a 300 space public access parking garage to private parties.

Without this structure, the needed investment of \$3,822,000 in private funding to bring public access parking to the Urban Renewal Area of the City would not have occurred. The Corporation receives payments under the \$10,598,000 loan it made to Yonkers Capital Fund LLC in amounts sufficient to repay the \$2,629,000 loan it has from Hudson Valley Bank (see Note 3). The Corporation's balance of the other sources of funding does not have repayment obligations.

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 \$14,000,000 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.

The Corporation will then determine how to handle the lower tier loans but in all events will receive amounts sufficient to repay its \$2,629,000 loan from Hudson Valley Bank. This conduit activity was a critical path activity in bringing this public access parking to this Urban Renewal Area of the City where limited public funding needed to be aggregated to induce private parties to provide the balance of capital needed to construct and operate a public access parking garage.

Warburton Wells Historic

As with the Larkin Garage project in 2012, the City desired to induce economic development activities by private parties which in this case involved developing affordable housing units with retention of a historical facade in front of the 92 units of affordable housing that benefited from the 92 parking spaces to be made available at Larkin Garage. Again, the activities involved development in or nearby the City designated Urban Renewal Area. This structure involved the Corporation aggregating State grant funds sourced under the RESTORE Grant Program, with the Corporation acting as a sub-recipient to the City and thereafter loaning the proceeds to a private party in order to induce private investment through the New Market Tax Credit Program.

Yonkers Economic Development Corporation

Notes to Financial Statement
December 31, 2012 and 2011

Note 5 - Economic Development Projects (continued)

Warburton Wells Historic (continued)

The City was not in a position to handle the grant funds in this fashion so the Corporation, as a City controlled entity, was designated for the role and thereby fulfilled this essential governmental function for the City. The Corporation used the proceeds of the Empire State Development Corporation ("ESDC") RESTORE grant to make a "leverage" loan in the amount of \$2,919,054 to Greenline Leverage Fund II, LLC (the "Investment Fund") pursuant to a Loan Agreement between the Corporation and the Investment Fund. The Corporation received said funds through the Sub-Recipient Agreement with the City and ESDC and by a letter directing the proceeds of the ESDC RESTORE Grant to be deposited in escrow with All New York Title. The leveraged loan from the Leveraged Lenders was initiated by wire from All New York Title with consent from the Corporation and the City. The Investment Fund also received loans from the City of HOME Dollars ("Leveraged Lender 2") in the amount of \$1,000,000 and from a private party identified by the developer, WWLL LLC ("Leverage Lender 1"), in the aggregate amount of \$3,383,946 (individually such loans are \$1,593,990 and \$1,789,956). The Investment Fund then reimbursed Citibank, N.A. for its initial equity contribution made on October 14, 2011 to an affiliate of the Investment Fund, Greenline Leverage Fund LLC and effectively used the proceeds of the Corporation loan of \$2,919,054, the Leveraged Lender 2 loan of \$1,000,000 and Leveraged Lender 1 loan of \$3,383,946 (combined loans of \$7,303,000) to recapitalize itself and to thereafter continue a Qualified Equity Investment ("QEI") in Greenline CDF Subfund XIV LLC-QEI I (the "Sub-CDE") that was originally made on October 14, 2011. Capmark CDF (the "NMTCC Allocatee") previously made a capital contribution to the Sub-CDE pursuant to the Second Amended and Restated Operating Agreement of the Sub-CDE for a .01% ownership interest in the Sub-CDE. Using QEI proceeds received October 14, 2011 the Sub-CDE made an initial advance to the Warburton Wells Developer LLC ("QALICB" or "Developer") Disbursement Account of \$5,972,851 with respect to Notes A-C, \$900,000 with respect to Note D and \$2,627,149 with respect to Note E, pursuant to that certain Construction Loan Agreement between the Sub-CDE and the QALICB (the "QLICI 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 will remain in the Sub-CDE account until no later than October 1, 2012 when it will be 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 (the "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 Statement
December 31, 2012 and 2011

Note 5 - Economic Development Projects (continued)

Cromwell Towers

New York State has limited points of access for tax exempt revenue bond financing through conduit issuers. The State constitution prohibits the City from directly acting as a conduit issuer of revenue bonds for private parties that qualify for use of proceeds of tax exempt "private activity" bond financing. Until January 2008, Industrial Development Agencies, like the Corporation's affiliate, City of Yonkers Industrial Development Agency ("YIDA"), provided access to tax exempt bond financing for entities seeking this form of financial assistance. In January 2008, the authority of YIDA to issue tax exempt bonds for not-for-profits "sunset" - the right stems from a definition in the IDA law that defines not for profits as "civic facilities" and this definition was controversial from 1986 when it was first introduced until January 2008 when the final sunset on this authority occurred.

Of note, YIDA's authority to issue tax exempt bonds had become burdened with a new State issuer tax called a "bond issuance charge" of up to 84 basis points that had previously only been applied to State issuers repaying their bonds with future State appropriations. By May of 2010, the City determined that it needed a conduit issuer for tax exempt bonds for not for profits anticipating that the sunset of YIDA authority might be permanent. The City designated the Corporation as its conduit issuer.

Once the Corporation had been established as an on behalf issuer of the City to perform this essential governmental function, the financial assistance of having a tax exempt bond issued for a private party was offered in coordination with YIDA such that a comprehensive public presentation occurred with respect to private parties considering the City for their projects.

Cromwell Towers was a 100% affordable housing project in need of significant upgrades to address deferred maintenance and significant crime and public nuisance problems. Investors approached the City seeking assistance from YIDA in the form of sales tax exemptions, mortgage tax exemptions and a PILOT and requested a conduit tax exempt bond issuance by the Corporation for a private activity bond issuance of \$38,987,037. The combination of YIDA benefits and the Corporation benefits was the most cost effective manner to provide the requested forms of financial assistance. With City Council approval, the Corporation acted as an issuer for this project and issued it's a \$38,987,037 Multi-Family Housing Revenue Note (Cromwell Towers Apartments Limited Partnership Project), Series 2011 (the "Obligation").

The Obligation is authorized to be issued pursuant to (i) Section 1411 of the Not-for-Profit Corporation Law of the State of New York, as amended (hereinafter collectively called the "Act"), (ii) a bond resolution (the "Bond Resolution"), adopted by the board of the Corporation on October 26, 2011 and (iii) a resolution of the City Council dated December 2, 2011 (the "City Resolution"), designating the Corporation as an on behalf of issuer of the City, for the purpose of providing funds to finance a certain project (the "Project") for the benefit of the Cromwell Towers Apartments Limited Partnership (the "Company") consisting of: (A) the acquisition of fee title to or other interest in an approximately 2.35-acre parcel of land located at 77 Locust Hill Avenue, Yonkers, New York; (B) the acquisition, renovation, reconstruction, refurbishment and upgrading on the Land of the existing multifamily housing complex containing approximately forty-six (46) one-bedroom apartments, one hundred ninety-

Yonkers Economic Development Corporation

Notes to Financial Statement
December 31, 2012 and 2011

Note 5 - Economic Development Projects (continued)

Cromwell Towers (continued)

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; (C) the acquisition and installation in and around the existing improvements of certain items of machinery, equipment and other items of tangible personal property; and (D) paying certain costs and expenses incidental to the Obligation.

Notes receivable at December 31, 2012 and 2011 is as follows:

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

Note 6 - Contractual Services

YIDA, in accordance with a management services agreement dated December 21, 2011, provides administrative and management services for the Corporation. Based on this agreement, the Corporation remits a management fee to YIDA for all revenues in excess of \$210,000. The Corporation utilizes the first \$210,000 in revenues for general expenses. The same agreement was in place for 2012; however, no fees were paid to YIDA. A new agreement between the Corporation and YIDA was executed on December 11, 2011 and will commence in 2013. The new agreement provides that YEDC will pay no more than \$70,000 per year for management and administrative services provided by YIDA.

Note 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.

Note 8 - Concentration of Credit Risk

Financial instruments that subject the Corporation to concentrations of credit risk consist principally of temporary cash deposits in excess of Federally insured limits. The Corporation maintains cash balances in financial institutions insured by the Federal Deposit Insurance Corporation. Cash on deposit at these institutions may exceed Federally insured limits from time to time.

* * * * *

Yonkers Economic Development Corporation

Supplementary Information

December 31, 2012 and 2011

**Independent Accountants' Report on Compliance with Section 2925(3)(1)
of the New York State Public Authorities Law**

**Board of Directors
Yonkers Economic Development Corporation**

We have examined the Yonkers Economic Development Corporation's (the "Corporation") compliance with Section 2925(3)(1) of the New York State Public Authorities Law and Part 201 of Title Two of the New York code of Rules and Regulations during the year ended December 31, 2012. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2012.

This report is intended solely for the information and use of management, the Board of Directors, officials of the Yonkers Economic Development Corporation, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

O'Connor Davies, LLP

Harrison, New York
March 27, 2013

Yonkers Economic Development Corporation

Schedule of Industrial Revenue Bonds and Notes Issued
December 31, 2012

Project	Date of Issue	Original Issue Value	Outstanding Balance at January 1, 2012	New Issues	Payments	Outstanding Balance at December 31, 2012
Riverview II	May 2010	\$ 26,990,000	\$ 26,240,000	\$ -	\$ 795,000	\$ 25,445,000
Charter School of Excellence	Nov 2010	12,445,000	12,445,000	-	710,000	11,735,000
Total Indebtedness		\$ 39,435,000	\$ 38,685,000	\$ -	\$ 1,505,000	\$ 37,180,000

**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 ("YEDC"), a component unit of the City of Yonkers, New York (the "City"), as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise YEDC's financial statements, and have issued our report thereon dated March 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered YEDC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of YEDC's internal control. Accordingly, we do not express an opinion on the effectiveness of YEDC'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 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.

**Board of Directors
Yonkers Economic Development Corporation**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether YEDC'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrison, New York
March 27, 2013

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

**Board of Directors and Executive Director
Yonkers Economic Development Corporation**

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of Yonkers Economic Development Corporation ("YEDC") as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered YEDC's internal control over financial reporting ("internal control") as a basis for designing 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 YEDC's internal control. Accordingly, we do not express an opinion on the effectiveness of YEDC'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 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 internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management and the Board of Directors or YEDC and is not intended to be and should not be used by anyone other than these specified parties.

Harrison, New York
March 27, 2013

Yonkers Economic Development Corporation

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

December 31, 2012

**Communication of Matters Identified in the Audit to
Those Charged with Governance**

**Board of Directors
Yonkers Economic Development Corporation**

We have audited the financial statements of Yonkers Economic Development Corporation ("YEDC") as of and for the year ended December 31, 2012, and have issued our report thereon dated March 27, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 30, 2012. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the YEDC are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit we performed tests of the YEDC's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Board of Directors
Yonkers Economic Development Corporation**

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by YEDC are described in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about the methods used to account for significant unusual transactions, and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Estimates of certain receivable balances
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

**Board of Directors
Yonkers Economic Development Corporation**

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to outstanding loans payable involving economic development projects.

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction.

There are no such financial statement misstatements that remain uncorrected.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter dated March 27, 2013.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Board of Directors
Yonkers Economic Development Corporation**

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting YEDC, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

Auditor independence

We affirm that O'Connor Davies, LLP is independent with respect to YEDC in accordance with professional standards.

This communication is intended solely for the information and use of the Board of Directors and management of YEDC and is not intended to be and should not be used by anyone other than these specified parties.

Harrison, New York
March 27, 2013

**Independent Accountants' Report on Compliance with Section 2925(3)(1)
of the New York State Public Authorities Law**

**Board of Directors
Yonkers Economic Development Corporation**

We have examined the Yonkers Economic Development Corporation's (the "Corporation") compliance with Section 2925(3)(1) of the New York State Public Authorities Law and Part 201 of Title Two of the New York code of Rules and Regulations during the year ended December 31, 2012. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining on a test basis evidence supporting the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2012.

This report is intended solely for the information and use of management, the Board of Directors, officials of the Yonkers Economic Development Corporation, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

Harrison, New York
March 27, 2013