

Yonkers Pier Development, Inc. and Subsidiary
(A Component Unit of the City of Yonkers, New York)

Consolidated Financial Statements

October 26, 2015 and December 31, 2014

**Yonkers Pier Development, Inc. and Subsidiary
(A Component Unit of the City of Yonkers, New York)**

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Independent Auditors' Report

**Board of Directors
Yonkers Pier Development, Inc.**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Yonkers Pier Development, Inc. and Subsidiary (the "Corporation"), a component unit of the City of Yonkers, New York, which comprise the consolidated statements of net position as of October 26, 2015 and December 31, 2014 and the related consolidated statements of activities and cash flows for the period and year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of October 26, 2015 and December 31, 2014, and the changes in their net position (deficit) and their cash flows for the period and year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 consolidated financial statements. Such information, although not a part of the consolidated 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 consolidated 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 consolidated financial statements and other knowledge we obtained during our audit of the consolidated 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 December 17, 2015 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

YONKERS PIER DEVELOPMENT, INC.

87 Nepperhan Avenue Room 307 Yonkers NY 10701 Tel: (914) 377-6150 Fax: (914) 377-6003

Yonkers Pier Development, Inc. and Subsidiary (A component unit of the City of Yonkers)

Management's Discussion and Analysis

Compliance and Accountability

Yonkers Pier Development, Inc. and Subsidiary's ("YPDI") management is under the direction of its three board members who are appointed and serve at the pleasure of the Mayor of the City of Yonkers, New York.

YPDI was established in 2005 and operates under the provisions of the Public Authority Accountability Act. YPDI is the sole member of Yonkers Pier QALICB, LLC, an entity created as part of a New Market Tax Credit structure for the purpose of a renovation and improvement project.

A complete description of this economic development project is contained in Note 3 of the accompanying consolidated financial statements. The accompanying financial statements include the consolidated activities of YPDI and Yonkers Pier QALICB, LLC.

Financial Highlights

YPDI and subsidiary signed articles of dissolution on May 31, 2015, with the expectation of all assets and liabilities to be transferred to Yonkers Industrial Development Agency on October 26, 2015.

The assets of YPDI, at the time of transfer, consisted of cash, receivables due from a licensee and leasehold improvements. The leasehold improvements of \$6,424,849 represent the net unamortized cost of the renovation and improvement project of a pier located in Yonkers, New York. The leasehold improvements are being amortized over a period of 20 years consistent with the initial license term. Details of the leasehold improvements are provided in Note 4 to the accompanying consolidated financial statements.

The liabilities of YPDI, at the time of transfer, consisted of unpaid operating costs and loans payable related to the above referenced economic development project. The details to these loans payable are disclosed in Note 5 of the accompanying consolidated financial statements.

For the period ending October 26, 2015, YPDI generated total revenue of \$133,064, of which \$106,250 was from licensing fees, and incurred \$493,252 in operating expenses, of which \$458,918 was a non-cash cost of depreciation of leasehold improvements, resulting in an operating loss of \$360,188. In addition, YPDI incurred net nonoperating items of \$1,416,591, of which \$6,339,840 was for loan forgiveness, (\$4,820,338) was for the transfer to Yonkers Industrial Development Agency and (\$102,911) was for the loss on equity interest. The total result of the activities for YPDI was a change in net position of \$1,056,403.

Request for Information

This financial report is designed to provide a general overview of YPDI's finances for those with an interest in those finances. Questions and comments concerning any of the information provided in this report should be addressed to YPDI Administrator, 87 Nepperhan Avenue, Room 308, Yonkers, NY 10701.

Yonkers Pier Development, Inc. and Subsidiary

Consolidated Statements of Net Position

	<u>October 26, 2015</u>	<u>December 31, 2014</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 247,852
Accounts receivable	-	220,000
Leasehold improvements, net	<u>-</u>	<u>6,883,767</u>
	<u>\$ -</u>	<u>\$ 7,351,619</u>
LIABILITIES AND NET POSITION		
Liabilities		
Accounts payable and accrued expenses	\$ -	\$ 52,881
Loans payable	<u>-</u>	<u>8,355,141</u>
Total Liabilities	-	8,408,022
Net Position - Unrestricted	<u>-</u>	<u>(1,056,403)</u>
	<u>\$ -</u>	<u>\$ 7,351,619</u>

See notes to consolidated financial statements

Yonkers Pier Development, Inc. and Subsidiary

Consolidated Statements of Activities

	Period ended October 26, 2015	Year ended December 31, 2014
OPERATING REVENUES		
Licensing fees	\$ 106,250	\$ 220,536
Other income	26,760	-
Interest income	<u>54</u>	<u>43</u>
 Total Operating Revenues	 <u>133,064</u>	 <u>220,579</u>
OPERATING EXPENSES		
Insurance	-	2,365
Accounting fees	13,000	23,000
Interest	3,719	44,851
Repairs and maintenance	540	2,544
Other fees	17,075	22,329
Loss on settlement	-	101,196
Depreciation	<u>458,918</u>	<u>550,701</u>
 Total Operating Expenses	 <u>493,252</u>	 <u>746,986</u>
 Operating Loss	 <u>(360,188)</u>	 <u>(526,407)</u>
NONOPERATING ITEMS		
Loss on equity interest	(102,911)	-
Loan forgiveness	6,339,840	-
Transfer to Yonkers Industrial Development Agency	<u>(4,820,338)</u>	<u>-</u>
 Total Nonoperating Items	 <u>1,416,591</u>	 <u>-</u>
 Change in Net Position	 1,056,403	 (526,407)
NET POSITION (DEFICIT)		
Beginning of year	<u>(1,056,403)</u>	<u>(529,996)</u>
End of year	<u>\$ -</u>	<u>\$ (1,056,403)</u>

See notes to consolidated financial statements

Yonkers Pier Development, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Period ended October 26, 2015	Year ended December 31, 2014
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (360,188)	\$ (526,407)
Adjustments to reconcile operating loss from operations to net cash from operating activities		
Depreciation	458,918	550,701
Changes in operating assets and liabilities		
Accounts receivable	12,500	141,196
Accounts payable and accrued expenses	<u>(39,881)</u>	<u>25,881</u>
Net Cash from Operating Activities	<u>71,349</u>	<u>191,371</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfer of assets	<u>(133,725)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal repayments of loans payable	(82,565)	(118,438)
Loss on equity interest	<u>(102,911)</u>	<u>-</u>
Net Cash from Capital and Related Financing Activities	<u>(185,476)</u>	<u>(118,438)</u>
Net Change in Cash and Cash Equivalents	(247,852)	72,933
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>247,852</u>	<u>174,919</u>
End of year	<u>\$ -</u>	<u>\$ 247,852</u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for interest	\$ 3,719	\$ 44,851
NONCASH CAPITAL, FINANCING AND INVESTING ACTIVITIES		
Forgiveness of debt	\$ 6,339,840	\$ -

See notes to consolidated financial statements

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
October 26, 2015 and December 31, 2014

1. **Organization and Activities**

Yonkers Pier Development, Inc. ("YPDI") was established by the City of Yonkers, New York (the "City") as a local development corporation for the purpose of undertaking the specific project of renovation and improvement to the pier located on the Hudson River waterfront within the City (the "Pier"). Included in the project is 8,000 square feet of building space, to be utilized as a commercial restaurant and concession. YPDI is governed by the Not-for-Profit Corporation Law of the State of New York. The members of the Board of Directors are appointed by the Mayor of the City.

YPDI is the sole member of Yonkers Pier QALICB, LLC ("QALICB"), an entity created as part of a New Market Tax Credit ("NMTC") structure for the purpose of the renovation and improvement project of the Pier.

These consolidated financial statements include the activities of YPDI and QALICB, referred to in these statements as the "Corporation."

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 set forth in Government Accounting Standards Board ("GASB"), Statement No. 61, the Corporation's consolidated 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 preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures/ expenses during the reporting period. Actual results could differ from those estimates.

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
October 26, 2015 and December 31, 2014

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

Principles of Consolidation

The consolidated financial statements include the accounts of YPDI and its wholly owned subsidiary. All intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Corporation considers all highly liquid debt instruments with a maturity of three months or less at time of purchase to be cash equivalents. At times cash deposits may exceed the federally insured limits and expose the Corporation to credit risk. The Corporation believes it is not exposed to any significant risk of loss on these funds.

Government Grants and Contracts

Grants are recorded as contributions based on the criteria contained in the grant award. Revenue is recognized in the accounting period when the related allowable expenses are incurred.

Capitalization and Depreciation

Leasehold improvements are recorded at cost. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight line method. Costs incurred in relation to development of the project for interest, property taxes and insurance are capitalized only during periods in which activities necessary to prepare the property for its intended use are in progress. Expenditures for maintenance and repairs are charged to expense as incurred. The estimated service life of the leasehold improvements is 20 years.

Deferred Outflows/Inflows of Resources

In addition to assets, the consolidated statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expense) until then.

In addition to liabilities, the consolidated statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

As of October 26, 2015, no amounts were required to be reported as deferred outflows/inflows of resources.

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
October 26, 2015 and December 31, 2014

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use. The net position of the Corporation on the consolidated statement of net position is classified as unrestricted.

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. Management has determined that no reserve is required.

Income Taxes

The Corporation is a tax-exempt organization under the provisions of Section 115 of the Internal Revenue Code.

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, 2012.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is December 17, 2015.

3. Economic Development Project

In connection with NMTC funding, the City, through the Department of Parks and Recreation, entered into a Pier Facility Master Agreement (the "Master Agreement") on March 24, 2005 with the City of Yonkers Industrial Development Agency ("YIDA"). The Master Agreement included a license to modify, reconstruct and operate a certain facility on the Pier and the ability to undertake concessions. Also on March 24, 2005, YIDA assigned its interest in the Pier to the Corporation. On the same date, the Corporation entered into a Yonkers City Pier Facility Sublease (the "Operating Sublease") with HCC Caterers, Inc. to operate a restaurant, bar and catering facility at the Pier. The Corporation then assigned its interest to QALICB on January 12, 2006.

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
October 26, 2015 and December 31, 2014

3. Economic Development Project *(continued)*

On June 7, 2005, YIDA appointed the Corporation as its agent to undertake a certain project (the "Project"), consisting of the acquisition of an interest in the Pier and certain existing improvements, namely approximately 8,000 square feet of building space to be utilized as a commercial restaurant. The Project also includes the acquisition and installation in and around the existing building of certain renovations, items of equipment and other tangible personal property. By means of the agent agreement and a sales tax exemption letter, dated the same date, YIDA provided certain financial assistance in the form of sales and use tax exemptions for purchases and rentals related to the acquisition, construction and equipping of the Project.

The majority of financing for the Project came as a result of a structure built for the purpose of creating NMTC. Pier Preservation Fund, LLC (referred to as the "Upper Tier Fund", or "Investment Fund" when describing the NMTC structure) used the proceeds of loan funds and equity funds to make a qualified equity investment ("QEI") in NDC New Markets Investment XXII, L.P. ("NDC New Markets") in the amount of \$7,728,832. Yonkers Downtown Waterfront Development Corp. loaned \$4,550,750 and the City loaned \$950,000 of HUD Section 108 Funds. JP Morgan Chase Bank (previously Washington Mutual Bank) made an equity investment of \$2,230,582. With these QEI funds, NDC New Markets made four "lower tier loans" to QALICB for the purpose of the Project, which qualified NDC New Markets for NMTC in the amount of \$3,014,244.

4. Capital Assets – Component Unit

Changes in the capital assets of the Corporation (component unit) were as follows:

Class	Balance January 1,	Additions	Transfer to YIDA	Balance October 26, 2015
Capital assets, being depreciated				
Leasehold improvements	\$ 11,014,025	\$ -	\$ (11,014,025)	\$ -
Less accumulated depreciation for				
Leasehold improvements	(4,130,258)	(458,918)	4,589,176	-
Total Capital Assets, being depreciated, net	<u>\$ 6,883,767</u>	<u>\$ (458,918)</u>	<u>\$ (6,424,849)</u>	<u>\$ -</u>
Class	Balance January 1,	Additions	Deletions	Balance December 31, 2014
Capital assets, being depreciated				
Leasehold improvements	\$ 11,014,025	\$ -	\$ -	\$ 11,014,025
Less accumulated depreciation for				
Leasehold improvements	(3,579,557)	(550,701)	-	(4,130,258)
Total Capital Assets, being depreciated, net	<u>\$ 7,434,468</u>	<u>\$ (550,701)</u>	<u>\$ -</u>	<u>\$ 6,883,767</u>

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
October 26, 2015 and December 31, 2014

5. Loans Payable

The following table summarizes changes in the Corporation's loans payable for the period ended October 26, 2015:

	Balance January 1, 2015	Maturities and/or Payments	Forgiven*	Transfer **	Balance October 26, 2015
Lower Tier - Note C	\$ 950,000	\$ -	\$ -	\$ (950,000)	\$ -
Lower Tier - Note B	999,840	-	(999,840)	-	-
Lower Tier - Note D	2,305,000	-	(2,305,000)	-	-
Lower Tier - Note A	3,035,000	-	(3,035,000)	-	-
New York Power Authority	<u>1,065,301</u>	<u>(82,565)</u>	-	<u>(982,736)</u>	-
	<u>\$ 8,355,141</u>	<u>\$ (82,565)</u>	<u>\$ (6,339,840)</u>	<u>\$ (1,932,736)</u>	<u>\$ -</u>

* These loans were forgiven by the Yonkers Downtown Waterfront Development Corporation.

** The New York Power Authority loan and Lower Tier – Note C, Section 108 loan were transferred to YIDA as part of the dissolution of the Corporation.

6. Loss on Equity Interest

The Corporation had a put option to purchase the equity interest in Pier Preservation Fund, LLC from JPMorgan Chase for \$111,529. During the period ended October 26, 2015, the Corporation exercised the put option, of which HEDC New Markets ("HEDC") is partially liable. HEDC is an affiliate of the National Development Council and was the largest recipient in the New Market Tax Credit authority. As part of the pier renovation project, HEDC collected prepaid syndication fees. These prepaid fees were utilized towards the exercise of the put option. The breakdown of the put option fees are as follows:

Put Option	
Corporation's portion	\$ 97,798
HEDC's portion	<u>13,731</u>
	111,529
Legal fees relating to put option	5,100
Wire transfer fee	<u>13</u>
Total loss on equity interest	<u>\$ 116,642</u>
Total Corporation's Portion	\$ 102,911
Total HEDC's Portion	<u>13,731</u>
	<u>\$ 116,642</u>

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
October 26, 2015 and December 31, 2014

7. NMTC Exit Agreement

The NMTC Exit Agreement executed as of May 20, 2015 detailed multiple steps to be completed. The Corporation and HEDC placed \$111,529 for the exercise of the Put Option in a JPMorgan Chase account and \$100 in Community Development Properties Yonkers Pier, Inc. ("CDPYP"). Both Chase and CDPYP then assigned all of its investor member interest to YIDA.

The Pier Preservation Fund redeemed all of its interest from the Corporation. The CDE lender assigned the four Lower Tier Notes with NDC New Markets (Note A \$3,035,000, Note B \$999,840, Note C \$950,000, and Note D \$2,305,000) to the Pier Preservation Fund. The redemption was evidenced by the Allonge to Note A, Allonge to Note B, Allonge to Note C, and Allonge to Note D, all signed on May 20, 2015.

The Pier Preservation Fund had assigned Note A to Yonkers Downtown Waterfront Development Corporation ("YDWDC") in full satisfaction of Leverage Loan Note A and Leverage Loan Note C. Note B and Note D were to be distributed to YIDA. Prior to the distribution of the loans, it was determined that the YDWDC forgave Note A, Note B, and Note D, leaving only Note C to be distributed to YIDA.

The Corporation has placed funds in an account to satisfy any and all attorney fees, accounting and tax costs incurred in connection with these transactions.

8. Dissolution

The Corporation signed Articles of Dissolution of the Yonkers Pier QALICB, LLC on May 31, 2015. The dissolution was authorized by the sole Member and was effective upon filing the Articles with the Secretary of the State. All other assets and liabilities of Corporation were transferred to YIDA on October 26, 2015. The transfer to YIDA is itemized as follows:

Cash and Equivalents	\$ 133,725
Accounts Receivable	207,500
Leasehold Improvements	11,014,025
Accumulated Depreciation	<u>(4,589,176)</u>
Accounts Payable	(13,000)
Loans Payable	<u>(1,932,736)</u>
Total Transfer to YIDA	<u>\$ 4,820,338</u>

The accounts receivable and accounts payable consist entirely of the sub license fees due from HCC Caterers, Inc. and audit fees. The NYPA loan payable and the Section 108 (Lower Tier – Note C) loan, in the amount of \$982,736 and \$950,000, respectively, were transferred to YIDA. The Corporation's other lower tier loans are considered forgiven.

Yonkers Pier Development, Inc. and Subsidiary

Notes to Consolidated Financial Statements
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8. Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentration of credit risks consist principally of temporary cash deposits in excess of Federally insured limits and rent receivable. The Corporation maintains cash balances in a financial institution insured by the Federal Deposit Insurance Corporation. Cash on deposit at the institution may exceed Federally insured limits from time to time. Accounts receivable are expected to be collected in the normal course of business.

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**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 Pier Development, Inc.**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Yonkers Pier Development, Inc. and Subsidiary ("YPDI"), a component unit of the City of Yonkers, New York (the "City"), as of and for the year ended October 26, 2015 and the related notes to the consolidated financial statements, which collectively comprise YPDI's consolidated financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

O'Connor Davies, LLP

Harrison, New York
December 17, 2015