

PUBLIC REALM IMPROVEMENT FUND GOVERNING GROUP INC.
(a component unit of the City of New York)

AUDITED FINANCIAL STATEMENTS

Year ended June 30, 2019



**Public Realm Improvement Fund
Governing Group Inc.**

Audited Financial Statements

Year ended June 30, 2019

Public Realm Improvement Fund Governing Group Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Public Realm Improvement Fund Governing Group Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Public Realm Improvement Fund Governing Group Inc., which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 of 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 auditor's 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 Public Realm Improvement Fund Governing Group Inc. as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, on our consideration of The Public Realm Improvement Fund Governing Group Inc.'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 Public Realm Improvement Fund Governing Group Inc.'s internal control over financial reporting and compliance.

UHY LLP

New York, New York
September 24, 2019

Public Realm Improvement Fund Governing Group Inc. (A Component Unit of the City of New York)

Management's Discussion and Analysis

June 30, 2019

This section of the Public Realm Improvement Fund Governing Group Inc. (the "Governing Group" or the "Corporation") annual financial report presents our discussion and analysis of financial performance during the year ended June 30, 2019. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Background

This annual financial report consists of two parts: *Management's discussion and analysis* (this section) and the *basic financial statements*. The Governing Group is considered a discretely presented component unit of the City of New York (the "City") for the City's financial reporting purposes and a New York Not-for-Profit local development corporation formed under section 1411 of the Not-for-Profit corporation law that commenced operation in October 2017. The Governing Group was formed for the exclusively charitable and public purpose of lessening the burdens of the City and acting in the public's interest, by bolstering and enhancing New York City's East Midtown district status as a premier central business district through public realm improvement projects.

The Corporation is tasked to develop and maintain a Public Realm Improvement Concept Plan ("Concept Plan") of distinct public realm improvement projects to and apportion funding from the Public Realm Improvement Fund (the "Fund") to the projects based upon certain criteria. The Governing Group had no financial activity for fiscal years 2017 or 2018.

Financial Analysis of the Corporation

Net Position - The following table summarizes the Corporation's financial position at June 30, 2019:

	<u>2019</u>
Current assets	<u>\$42,073,341</u>
Total restricted net position	<u>\$42,073,341</u>

The Governing Group has the discrete mission to utilize the Fund for capital improvement projects, which is funded by contributions made when developments or, where permitted, enlargements are made on qualifying sites in the East Midtown Subdistrict occur, as defined in the New York City Zoning Resolution Section 81-61.

In fiscal year 2019, a transfer of development rights was made from Grand Central Terminal to a qualifying site at 270 Park Avenue thus spurring a \$41,672,875 contribution to the Fund.

Operating Activities

The Governing Group was organized to bolster and enhance East Midtown's status as a premier central business district through the selection and allocation of funds towards capital improvement projects identified in the Concept Plan that improve the public realm, its immediate vicinity and transit network. The Corporation will accomplish this by utilizing funds deposited into the Fund to implement public realm improvement projects, in accordance with the Public Realm Improvement Concept Plan and the New York City Zoning Resolution. Contributions into the Fund are received from projects that use development rights from landmarks within the East Midtown Subdistrict or that rebuild non-complying floor area.

Public Realm Improvement Fund Governing Group Inc.
(A Component Unit of the City of New York)

Management's Discussion and Analysis (continued)

June 30, 2019

Operating Activities (Continued)

The following table summarizes the changes in the Corporation's net position for the fiscal year ended June 30, 2019:

	<u>2019</u>
Operating revenues	\$41,672,875
Operating expenses	<u>—</u>
Operating income	41,672,875
Non-operating revenues	<u>400,466</u>
Change in net position	<u><u>\$42,073,341</u></u>

Operating revenues earned in fiscal year 2019 were a direct result of the transfer of development rights to JP Morgan Chase Bank, N.A. ("JP Morgan") in December 2018 for the construction of their new headquarters at 270 Park Avenue. As a result, JP Morgan was required to deposit \$41.7 million into the Fund.

Non-operating revenues were generated from the Fund's interest earnings on the \$41.7 million. The Fund did not incur any operating expenses during fiscal year 2019.

Contacting the Corporation's Financial Management

This financial report is designed to provide our customers, clients and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the New York City Economic Development Corporation, One Liberty Plaza, New York, New York, 10006.

Public Realm Improvement Fund Governing Group Inc.
(A Component Unit of the City of New York)

Statement of Net Position

	<u>June 30,</u> <u>2019</u>
Assets	
Current assets	
Cash and cash equivalents <i>(Note 3)</i>	<u>\$42,073,341</u>
Total assets	<u>42,073,341</u>
 Net Position	
Restricted	<u><u>\$42,073,341</u></u>

See notes to financial statements.

**Public Realm Improvement Fund Governing Group Inc.
(A Component Unit of the City of New York)**

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30, 2019
Revenues	
Contribution income <i>(Note 2)</i>	<u>\$41,672,875</u>
Total revenues	<u>41,672,875</u>
Expenses	—
Total expenses	<u>—</u>
Operating income	41,672,875
Non-operating revenues	
Interest income	<u>400,466</u>
Total non-operating revenues	<u>400,466</u>
Change in net position	42,073,341
Net position, beginning of year	<u>—</u>
Net position, end of year	<u>\$42,073,341</u>

See notes to financial statements.

Public Realm Improvement Fund Governing Group Inc.
(A Component Unit of the City of New York)

Statement of Cash Flows

	Year Ended June 30, 2019
Cash Flows from Operating Activities	
Contribution income received	<u>\$41,672,875</u>
Net cash provided by operating activities	<u>41,672,875</u>
Cash Flows from Investing Activities	
Interest income	<u>400,466</u>
Net cash provided by investing activities	<u>400,466</u>
Net increase in cash and cash equivalents	<u>42,073,341</u>
Cash and cash equivalents, beginning of year	<u>—</u>
Cash and cash equivalents, end of year	<u><u>\$42,073,341</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$41,672,875</u>
Net cash provided by operating activities	<u><u>\$41,672,875</u></u>

See notes to financial statements.

Public Realm Improvement Fund Governing Group Inc. **(A Component Unit of the City of New York)**

Notes to Financial Statements

June 30, 2019

1. Organization and Purpose

Public Realm Improvement Fund Governing Group Inc. (“Governing Group” or the “Corporation”) is a New York Not-for-Profit local development corporation formed under section 1411 of the Not-for-Profit corporation law that commenced operation in October 2017. The Corporation was created by the City of New York’s (the “City”) zoning text amendment (Section 81-60) to administer the Public Realm Improvement Fund (“the Fund”) for the exclusive charitable and public purpose of lessening the burdens of government for the City and acting in the public’s interest, by bolstering and enhancing East Midtown’s status as a premier central business district with a high-quality public realm, by allocating funds from the Fund to implement public realm improvement projects.

The Corporation is governed by thirteen members; seven of which are representatives of City agencies, appointed by and serving at the pleasure of the Mayor and six non *ex officio* members, appointed by the office of the Manhattan Borough President, New York City Council, and Manhattan Community Boards. The Governing Group shall establish and maintain a Public Realm Improvement Concept Plan (“Concept Plan”), for the purpose of creating a list of priority improvements and shall have the authority to amend such Concept Plan, and associated list of improvements, as necessary. All priority improvements in the Concept Plan shall meet the criteria set forth in Section 81- 683 (Criteria for improvements in the Public Realm Improvement Concept Plan).

As of June 30, 2019, the Fund received one deposit of \$41.7 million dollars in contributions.

2. Summary of Significant Accounting Policies and Nature of Operations

Basis of Accounting and Presentation

The Corporation has been classified as an “enterprise fund” as defined by the Governmental Accounting Standards Board (“GASB”) and, as such, the financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. In its accounting and financial reporting, the Governing Group follows the pronouncements of the GASB.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and Expense Classification

The Corporation distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses are transactions that directly relate to the organization fulfilling its mission statement including related administrative expenses, if any. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Public Realm Improvement Fund Governing Group Inc.
(A Component Unit of the City of New York)

Notes to Financial Statements (continued)

June 30, 2019

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Concentration of Custodial Credit Risk

The Governing Group maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant risk on these accounts.

Subsequent Events

For purposes of preparing these financial statements, Public Realm Improvement Fund Governing Group Inc. considered events through September 24, 2019, the date the financial statements were available for issuance.

3. Deposits

At year-end, the Governing Group's bank balance was \$42,073,341, all of which is deposited in a sweep account holding US government money market funds.

4. Restricted Net Position

In order to present financial condition and operating results of the Corporation in a manner consistent with the use of resources pursuant to its mission and bylaws, the Governing Group's net position resulting from operations will remain restricted.

5. Public Realm Improvement Fund

The Fund was established pursuant to the New York City Zoning Resolution Sections 81-642 and 81-643 for the deposit of contributions from projects that use development rights from landmarks within the East Midtown Subdistrict, or that rebuild non-complying floor area. These development rights are valued by the New York City Department of City Planning, providing a basis for establishing the minimum contribution to the Fund.

The following table depicts contributions made to the fund as of June 30, 2019:

Landmark (Granting Site)	Floor Area (SF)	Qualifying Site	Transaction Date	Fund Contribution
Grand Central Terminal	666,766	270 Park Avenue	12/4/2018	<u>\$41,672,875</u>
			Total	<u><u>\$41,672,875</u></u>

The Governing Group will utilize the Fund to designate funding to implement improvements to the East Midtown Subdistrict, and its immediate vicinity, in the Borough of Manhattan.

**Public Realm Improvement Fund Governing Group Inc.
(A Component Unit of the City of New York)**

Notes to Financial Statements (continued)

June 30, 2019

6. Other Related-Party Transactions – New York City Economic Development Corporation

The Corporation does not have any employees. Administrative services are provided to the Corporation by the New York City Economic Development Corporation and the Department of City Planning and no fees were charged for these services for the year ended June 30, 2019.

INDEPENDENT AUDITOR'S 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

To the Board of Directors
The Public Realm Improvement Fund Governing Group 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 financial statements of The Public Realm Improvement Fund Governing Group Inc., which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Public Realm Improvement Fund Governing Group Inc.'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 Public Realm Improvement Fund Governing Group Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Public Realm Improvement Fund Governing Group Inc.'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 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 Public Realm Improvement Fund Governing Group Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

UHY LLP

New York, New York
September 24, 2019