

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

Audited Financial Statements

Years ended June, 30 2020 and 2019

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

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INDEPENDENT AUDITOR'S REPORT

To Management and the Board of Directors
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., a component unit of the City of New York, which comprise the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2020 and 2019, and the changes in its financial position and its cash flows 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 management's discussion and analysis on pages 3 - 5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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 October 9, 2020, 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 solely 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
October 9, 2020

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

Management's Discussion and Analysis

June 30, 2020

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 years ended June 30, 2020 and 2019. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2020 Financial Highlights

- Current assets decreased by \$ 2,272,096 (or 5%)
- Non-current assets increased by \$ 3,048,450 (or 100%)
- Current liabilities increased by \$ 1,203 (or 100%)
- Net position increased by \$ 775,151 (or 2%)
- Operating revenues decreased by \$ 41,672,875 (or 100 %)
- Operating expenses increased by \$ 22,000 (or 100%)
- Non-operating revenues, increased by \$ 396,685 (or 99%)

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.

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

Management's Discussion and Analysis

June 30, 2020

Financial Analysis of the Corporation

Net Position- The following table summarizes the Corporation's financial position at June 30, 2020 and 2019 and the percentage changes between June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>% Change 2020-2019</u>
Current assets	\$ 39,801,245	\$ 42,073,341	(5) %
Non-current assets	3,048,450	-	100
Total assets	<u>42,849,695</u>	42,073,341	2
Current liabilities	1,203	-	100
Total restricted net position	<u>\$ 42,848,492</u>	\$ 42,073,341	2

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 to qualifying sites in the East Midtown Subdistrict, as defined in the New York City Zoning Resolution Section 81-61.

In fiscal year 2020, the bulk of the Corporation's assets were strategically invested in various securities aligning with its investment policy and as a result of investment income earned, total assets increased by \$776,354 or 2%.

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 per 81-60 of the Zoning Resolution.

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

Management's Discussion and Analysis

June 30, 2020

Operating Activities (continued)

The following table summarizes the changes in the Corporation's net position for the fiscal year ended June 30, 2020 and 2019 and the percentage changes between June 30, 2020 and 2019:

	2020	2019	% Change 2020-2019
Operating revenues	\$ –	\$ 41,672,875	(100) %
Operating expenses	22,000	–	100
Operating income	(22,000)	41,672,875	(100)
Non-operating revenues	797,151	400,466	99
Change in net position	\$ 775,151	\$ 42,073,341	(98)

Fiscal Year 2020 Activities

In fiscal year 2020, operating revenues decreased by \$ 41.7 million or 100% as there were no contributions made into the fund. Total operating expenses increased by \$22,000 or 100% due to the administration of the Corporation's investment portfolio and minimal operating activity.

Non-operating revenues amounting to \$797,151 were generated from the Fund's investment activities realized into income during fiscal year 2020.

Fiscal Year 2019 Activities

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

	June 30,	
	2020	2019
Assets		
Current assets		
Cash and cash equivalents <i>(Note 3)</i>	\$ 12,642,317	\$ 42,073,341
Current investments <i>(Note 3)</i>	27,056,334	—
Interest receivable	102,594	—
Total current assets	39,801,245	42,073,341
Non-Current assets		
Non-current investments <i>(Note 3)</i>	3,048,450	—
Total non-current assets	3,048,450	—
Total assets	42,849,695	42,073,341
 Liabilities and net position		
Current liabilities		
Accrued expenses	603	—
Due to New York City Economic Development Corp. <i>(Note 6)</i>	600	—
Total current liabilities	1,203	—
Net Position -Restricted	\$ 42,848,492	\$ 42,073,341

Public Realm Improvement Fund Governing Group, Inc.
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Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,	
	2020	2019
Revenues		
Contribution income <i>(Note 5)</i>	\$ —	\$ 41,672,875
Total revenues	—	41,672,875
Expenses		
Miscellaneous expense	1,203	—
Bank fees expense	20,797	—
Total expenses	22,000	—
Operating (loss) income	(22,000)	41,672,875
Non-operating revenues		
Investment income	797,151	400,466
Total non-operating revenues	797,151	400,466
Change in net position	775,151	42,073,341
Restricted net position, beginning of year	42,073,341	—
Restricted net position, end of year	\$ 42,848,492	\$ 42,073,341

Public Realm Improvement Fund Governing Group, Inc.
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Statement of Cash Flows

	Year Ended June 30,	
	2020	2019
Cash Flows from Operating Activities		
Contribution income received	\$ —	\$ 41,672,875
Bank fees paid	<u>(20,797)</u>	<u>—</u>
Net cash (used in) provided by operating activities	<u>(20,797)</u>	<u>41,672,875</u>
Cash Flows from Investing Activities		
Interest income	577,360	400,466
Sales of investments	30,372,501	—
Purchases of investments	<u>(60,360,088)</u>	<u>—</u>
Net cash (used in) provided by investing activities	<u>(29,410,227)</u>	<u>400,466</u>
Net (decrease) increase in cash and cash equivalents	(29,431,024)	42,073,341
Cash and cash equivalents, beginning of year	<u>42,073,341</u>	<u>—</u>
Cash and cash equivalents, end of year	<u>\$ 12,642,317</u>	<u>\$ 42,073,341</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating (loss) income	\$ (22,000)	\$ 41,672,875
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Changes in operating assets and liabilities:		
Due to New York City Economic Development Corp.	600	—
Miscellaneous expense	<u>603</u>	<u>—</u>
Net cash (used in) provided by operating activities	<u>\$ (20,797)</u>	<u>\$ 41,672,875</u>

Public Realm Improvement Fund Governing Group, Inc.
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Notes to Financial Statements

June 30, 2020 and 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 operations 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).

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.

Public Realm Improvement Fund Governing Group, Inc.
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Notes to Financial Statements (continued)

June 30, 2020 and 2019

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

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 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 purchased with original maturities of 90 days or less to be cash equivalent

Investments

Investments held by the Governing Group are recorded at fair value based on quoted market prices.

3. Deposits and Investments

At year-end, the Governing Group's cash and cash equivalent bank balance was \$539,354 all of which were held in U.S. Government money market funds.

Fair Value Measurement – Fair Value hierarchy categorizes the inputs to valuation techniques used to measure fair value into the following levels:

Level 1 – value based on quoted prices in active markets for identical assets.

Level 2 – value based on significant other observable inputs such as a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Level 3 – value based on inputs that are unobservable and significant to the fair value measurement such as discounted cash flows.

Money Market Funds, categorized as Level 1 inputs, are valued at the unadjusted prices that are quoted in active principal markets for identical assets. U.S. Agencies securities, categorized as Level 2, are valued on models using observable inputs.

Public Realm Improvement Fund Governing Group, Inc.
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Notes to Financial Statements (continued)

June 30, 2020 and 2019

3. Deposits and Investments (continued)

As of June 30, 2020, the Corporation had the following investments (in thousands). Investments maturities are shown only for June 30, 2020.

	June 30, 2020		
	Investment Maturities		
	(In Years)		
	Less Than 1	1 to 2	
Money Market Funds	\$ 10,304	\$ 10,304	-
Federal Farm Credit Bank	2,591	2,591	-
Federal Home Loan Bank Notes	7,300	7,300	-
U.S. Treasury Notes	11,671	8,622	3,049
Commercial Paper	10,342	10,342	-
Total	42,208		
Less: investments classified as cash equivalents	(12,103)		
Total Investments	\$ 30,105		

Interest Rate Risk: The Corporation has a formal investment policy, which limits investment maturities up to a maximum of two years from the date of purchase while also allowing 20% of assets categorized as Investments to be invested with a stated maturity of no more than seven years from the date of purchase; this strategy manages its exposure to fair value losses arising from increasing interest rates. Except for holdings in United States Treasury Notes, all of the Corporation's current investments have maturities of one year or less.

Credit Risk: It is the Corporation's policy to limit its investments in debt securities to those rated in the highest rating category by nationally recognized bond rating agencies or other securities guaranteed or collateralized by the U.S. government. As of June 30, 2020, the Corporation's investments in Federal Farm Credit Bank (FFCB), Federal Home Loan Bank Notes and U.S. Treasury Notes were rated AA+ by Standard & Poor's (S&P), Aaa by Moody's. Money market funds share the same credit ratings as the Corporation's federally held securities with the exception of S&P, which does not rate such funds. Investments in commercial paper (CP) were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's).

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

Notes to Financial Statements (continued)

June 30, 2020 and 2019

3. Deposits and Investments (continued)

Custodial Credit Risk: For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Corporation. The Corporation manages this credit risk by limiting its custodial exposure to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the Corporation. At June 30, 2020, the corporation was not subject to Custodial Credit Risk.

Concentration of Credit Risk: The Corporation places no limit on the amount it may invest in any U.S. government backed securities. The following table shows investments that represent 5% or more of total investments as of June 30, 2020 (dollars in thousands):

Issuer	Dollar Amount and Percentage of Total Investments	
	June 30, 2020	
Federal Farm Credit Bank	\$ 2,591	6%
Fed. Home Loan Bank Notes	7,300	17
U.S. Treasury Note	11,671	28

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.

Public Realm Improvement Fund Governing Group, Inc.
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Notes to Financial Statements (continued)

June 30, 2020 and 2019

5. Public Realm Improvement Fund (continued)

The following table depicts contributions made to the fund as of June 30,2020:

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

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

Related party transactions between New York City Economic Development Corporation (“NYCEDC”) and the Governing Group consisting of reimbursable expenses for the years ended June 30, 2020 and 2019 were \$600 and \$0, respectively. 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 for services were charged for the year ended June 30, 2020.

7. Subsequent Events

For purposes of preparing these financial statements, Public Realm Improvement Fund Governing Group, Inc. considered events through October 9, 2020, the date the financial statements were available for issuance.

**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 Management and the Board of Directors
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, 2020, 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, and have issued our report thereon dated October 9, 2020.

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) 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 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 financial statements. 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
October 9, 2020