



34TH STREET PARTNERSHIP, INC.

Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
34th Street Partnership, Inc.:

We have audited the accompanying financial statements of 34th Street Partnership, Inc., which comprise the balance sheet as of June 30, 2015, and the related statements of activities, functional expenses, 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 34th Street Partnership, Inc. as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited 34th Street Partnership, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 16, 2015

34TH STREET PARTNERSHIP, INC.

Balance Sheet

June 30, 2015

(with comparative financial information as of June 30, 2014)

Assets	2015	2014
Cash and cash equivalents	\$ 341,926	614,929
Accounts receivable and other assets	572,140	294,707
Funds held by bond trustee (note 4)	6,860,477	7,448,432
Property and equipment, net (note 3)	149,566	136,512
District improvements, net of accumulated amortization of \$13,453,904 and \$12,547,017 in 2015 and 2014, respectively	12,399,907	12,760,511
Total assets	<u>\$ 20,324,016</u>	<u>21,255,091</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses (note 6)	\$ 706,486	739,336
Due to related parties (note 8)	48,214	11,766
Accrued bond interest (note 4)	337,000	361,800
Bonds payable (note 4)	16,398,494	17,709,364
Total liabilities	17,490,194	18,822,266
Commitments and contingencies (notes 6 and 7)		
Net assets – unrestricted	2,833,822	2,432,825
Total liabilities and net assets	<u>\$ 20,324,016</u>	<u>21,255,091</u>

See accompanying notes to financial statements.

34TH STREET PARTNERSHIP, INC.

Statement of Activities

Year ended June 30, 2015

(with summarized financial information for the year ended June 30, 2014)

	<u>Operating and board- designated</u>	<u>Bond- financed activity</u>	<u>District improvements</u>	<u>2015 total</u>	<u>2014 total</u>
Revenue and other support:					
Assessments (notes 1 and 4):	\$ 10,882,612	—	—	10,882,612	9,940,000
Contributions in lieu of assessment	232,101	—	—	232,101	212,867
Parks revenue	1,058,719	—	—	1,058,719	842,467
Other program service revenue	507,051	—	—	507,051	459,225
Interest	7,491	447	—	7,938	2,894
Other revenue	6,527	—	—	6,527	52,825
	<u>12,694,501</u>	<u>447</u>	<u>—</u>	<u>12,694,948</u>	<u>11,510,278</u>
Total revenue and other support					
Expenses:					
Program services:					
Capital projects	2,022,231	(70,870)	906,887	2,858,248	2,527,428
Security	2,004,500	—	—	2,004,500	1,873,190
Sanitation	3,017,605	—	—	3,017,605	2,698,622
Visitor services	375,669	—	—	375,669	352,382
Taxi stands	292,040	—	—	292,040	255,405
Special maintenance	324,700	—	—	324,700	327,727
Public events	154,422	—	—	154,422	131,111
Retail services	311,215	—	—	311,215	254,060
Promotion	212,683	—	—	212,683	211,738
Design	245,823	—	—	245,823	293,398
Horticulture	699,356	—	—	699,356	846,858
Parks management	691,782	—	—	691,782	541,367
	<u>10,352,026</u>	<u>(70,870)</u>	<u>906,887</u>	<u>11,188,043</u>	<u>10,313,286</u>
Total program services					
Supporting services:					
Management and general	1,105,908	—	—	1,105,908	1,087,659
	<u>11,457,934</u>	<u>(70,870)</u>	<u>906,887</u>	<u>12,293,951</u>	<u>11,400,945</u>
Total expenses					
Increase (decrease) in net assets before transfers	1,236,567	71,317	(906,887)	400,997	109,333
Transfer – bond principal retired	(1,240,000)	1,240,000	—	—	—
Transfer – district improvements acquired	—	(546,283)	546,283	—	—
	<u>(3,433)</u>	<u>765,034</u>	<u>(360,604)</u>	<u>400,997</u>	<u>109,333</u>
Increase (decrease) in net assets					
Net assets (deficit) at beginning of year	1,221,866	(11,549,552)	12,760,511	2,432,825	2,323,492
Net assets (deficit) at end of year	\$ <u>1,218,433</u>	<u>(10,784,518)</u>	<u>12,399,907</u>	<u>2,833,822</u>	<u>2,432,825</u>

See accompanying notes to financial statements.

34TH STREET PARTNERSHIP, INC.
Statement of Functional Expenses
Year ended June 30, 2015
(with summarized financial information for the year ended June 30, 2014)

	Program services										Supporting services		2015 total	2014 total		
	Capital projects	Security	Sanitation	Visitor services	Taxi stands	Special maintenance	Public events	Retail services	Promotion	Design	Horticulture	Parks management			Total	Management and general
Salaries and wages	\$ 570,853	1,291,604	1,881,237	256,829	178,234	232,430	118,585	150,697	70,142	176,399	65,265	346,608	5,338,883	685,375	6,024,258	5,552,308
Payroll taxes and payroll-related expenses	66,658	205,328	370,109	33,804	28,594	43,193	15,508	17,263	8,194	24,024	11,354	54,116	878,145	88,664	966,809	803,780
Health insurance	42,255	282,200	375,605	37,472	65,000	29,088	4,039	8,144	19,634	10,535	14,362	45,001	933,335	52,819	986,154	967,810
Total salaries and benefits	679,766	1,779,132	2,626,951	328,105	271,828	304,711	138,132	176,104	97,970	210,958	90,981	445,725	7,150,363	826,858	7,977,221	7,323,898
Contracted services	97,223	336	54,857	1,739	—	24	(1,751)	100,279	99,118	3,189	595,543	41,259	991,816	37,142	1,028,958	1,041,072
Accounting and legal	681	8,106	130	—	—	—	1,080	2,370	—	148	—	20,523	33,038	51,906	84,944	110,300
Liability and related insurance	28,149	85,745	91,940	13,505	8,711	11,359	5,759	7,365	3,428	8,621	3,190	17,853	285,625	33,490	319,115	295,601
Rent and related	59,196	92,726	75,560	12,434	7,457	4,722	7,887	16,470	6,483	14,114	7,086	20,800	324,935	57,798	382,733	380,733
Supplies	105,418	25,463	138,009	11,369	3,324	3,480	433	4,076	273	1,880	945	42,983	337,653	14,679	352,332	277,647
Travel and entertainment	5,691	—	664	516	—	—	185	12	132	49	38	469	7,756	5,490	13,246	16,791
Communications	10,193	8,029	9,143	3,415	541	342	964	1,062	1,223	890	1,242	1,499	38,543	3,885	42,428	46,415
Maintenance, repair, and cleaning	327,619	365	10,566	184	32	21	6	15	6	11	5	10,144	348,974	3,879	352,853	173,769
Dues and subscriptions	372	—	100	1,050	—	—	56	1,534	1,332	153	—	688	5,285	30,767	36,052	35,491
Equipment	1,020	2,207	5,748	2,198	134	25	1,272	495	1,009	3,668	176	59,398	77,350	4,955	82,305	55,319
Interest	698,800	—	—	—	—	—	—	—	—	—	—	—	698,800	—	698,800	743,181
Depreciation and amortization	836,017	—	1,711	—	—	—	—	—	—	—	—	26,238	863,966	25,885	889,851	873,495
Miscellaneous	8,103	2,391	2,226	1,154	13	16	399	1,433	1,709	2,142	150	4,203	23,939	9,174	33,113	27,233
Total – 2015	\$ 2,858,248	2,004,500	3,017,605	375,669	292,040	324,700	154,422	311,215	212,683	245,823	699,356	691,782	11,188,043	1,105,908	12,293,951	\$ 11,400,945
Total – 2014	\$ 2,527,428	1,873,190	2,698,622	352,382	255,405	327,727	131,111	254,060	211,738	293,398	846,858	541,367	10,313,286	1,087,659		

See accompanying notes to financial statements.

34TH STREET PARTNERSHIP, INC.

Statement of Cash Flows

Year ended June 30, 2015

(with comparative financial information for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Increase in net assets	\$ 400,997	109,333
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	889,851	873,495
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(277,433)	(21,084)
Due from related parties	—	86,409
Accounts payable and accrued expenses	(32,850)	(93,776)
Due to related parties	36,448	11,766
Accrued bond interest	(24,800)	(19,581)
Net cash provided by operating activities	<u>992,213</u>	<u>946,562</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(66,888)	—
Acquisition of district improvements	(546,283)	(692,372)
Net cash used in investing activities	<u>(613,171)</u>	<u>(692,372)</u>
Cash flows from financing activities:		
Additions to funds held by bond trustee	(10,916,328)	(9,914,498)
Withdrawals from funds held by bond trustee	11,504,283	10,599,086
Repayment of Series 2011 bond principal	(1,240,000)	(1,205,000)
Net cash used in financing activities	<u>(652,045)</u>	<u>(520,412)</u>
Decrease in cash and cash equivalents	(273,003)	(266,222)
Cash and cash equivalents at beginning of year	<u>614,929</u>	<u>881,151</u>
Cash and cash equivalents at end of year	<u>\$ 341,926</u>	<u>614,929</u>
Supplemental cash flow disclosure:		
Interest paid during the year	\$ 723,600	762,763

See accompanying notes to financial statements.

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

(1) Description of Organization

34th Street Partnership, Inc. (the Partnership) is a not-for-profit entity incorporated in 1992, in cooperation with the City of New York (the City), by property owners, tenants, and City officials with an interest in the district along the 34th Street corridor in Manhattan (the District). The Partnership is a district management association organized to promote and support the District and to execute a plan approved by the City Council for providing supplemental services and capital improvements to the District.

The property owners and tenants within the District have agreed to fund the approved activities of the Partnership through assessments levied against real property located within the District and collected by the City. The maximum assessment and use of the funds is determined annually by the Partnership. Assessments of \$10,882,612 and \$9,940,000 were transferred to the Partnership to be used in operations for the years ended June 30, 2015 and 2014, respectively.

The Partnership has been determined by the Internal Revenue Service to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its tax-exempt purpose. The Partnership recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for fiscal 2015 or 2014.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) Basis of Presentation

The Partnership's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met by either actions of the Partnership and/or the passage of time. The Partnership has received no temporarily restricted contributions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently. The Partnership has received no permanently restricted contributions.

Revenues are reported as an increase in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

restrictions on net assets, if any (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed), are reported as net assets released from restrictions.

(c) Cash and Cash Equivalents

The Partnership considers money market funds and other interest-bearing deposits with original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Partnership had cash balances at June 30, 2015 and 2014 that exceeded the balance insured by the FDIC in the amount of \$73,400 and \$89,833, respectively.

(d) District Improvements

The Partnership provides program services and capital improvements to the District. As discussed in note 4, the Partnership has issued bonds to finance certain capital improvement projects, including, but not limited to, the installation of distinctive sidewalk corners, street lights, and park improvements.

District improvements are capitalized as costs are incurred, on the basis that they provide a future economic benefit to the District and its property owners, and are amortized on a straight-line basis over the estimated useful life of the improvement, ranging from 5 to 30 years.

(e) Contributions

Contributions, which include unconditional promises to give, as applicable, are recognized, at fair value, as revenue in the period received. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets.

(f) Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized by program and supporting services benefited in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Fund-raising activities are not significant to the operations of the Partnership.

(g) Use of Estimates

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

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

(h) *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The three levels of the fair value hierarchy are as follow:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3: Inputs that are unobservable.

(i) *Financial Instruments*

The carrying amounts of cash equivalents and accounts payable and accrued expenses approximate fair value, due to the short maturity of these financial instruments. However, the inputs to these fair value measurements are considered Level 3 in the fair value hierarchy.

(j) *Comparative Financial Information*

The accompanying financial statements include certain 2014 comparative information. With respect to the accompanying statement of activities, information in 2014 is presented in the aggregate. With respect to the statement of functional expenses, information in 2014 is presented in the aggregate and not detailed by function. Accordingly, such information should be read in conjunction with the Partnership's fiscal 2014 financial statements from which the summarized information was derived.

(k) *Recently Issued Accounting Pronouncement*

In 2015, the organization early adopted ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheets as a direct deduction from the debt liability. The Partnership applied the provision of the update retrospectively to 2014.

(3) **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided on a straight-line basis over estimated useful lives of three to five years. Leasehold improvements are amortized over the estimated useful life of the improvement or the lease term, if shorter.

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

At June 30, 2015 and 2014, property and equipment consisted of following:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 356,599	338,974
Machinery and equipment	151,938	140,478
Leasehold improvements	262,931	225,128
	<u>771,468</u>	<u>704,580</u>
Accumulated depreciation and amortization	(621,902)	(568,068)
Property and equipment, net	<u>\$ 149,566</u>	<u>136,512</u>

(4) Bonds Payable

On November 8, 2011, the Partnership issued \$18,795,000 in Capital Improvement Bonds, Series 2011 (Series 2011 Bonds). The proceeds of the Series 2011 Bonds were used to establish a refunding escrow fund, sufficient to pay principal and interest on the Partnership's outstanding Series 2003 Capital Improvement Refunding Bonds (Series 2003 Bonds), through their redemption date, January 1, 2013, as well as, to provide \$6,260,000 for additional approved capital improvements.

In connection with the issuance of these bonds, which were issued at a premium of \$1,654,575, the Partnership incurred bond issuance costs of \$296,223. These amounts have been deferred and are being amortized over the life of the related debt. Unamortized premium of \$1,338,048 and \$1,424,373 in 2015 and 2014, respectively, is included in bonds payable. Likewise, unamortized bond issuance costs of \$239,554 and \$255,009 in 2015 and 2014, respectively, have been subtracted from bonds payable. Amortization of bond premium and issuance costs amounted to \$86,325 and \$15,455, respectively, for both of the years ended June 30, 2015 and 2014.

The Series 2011 Bonds, maturing on various dates through January 1, 2031, are secured by assessments, bond proceeds, and funds established under the bond indenture. As required under the bond resolution, the Partnership maintains certain funds, which are held by the trustee. These funds, other than the Reserve Fund, are invested in Bank of New York Mellon Cash Reserve Funds, which are cash equivalents. The Reserve Fund balance consists of \$1,665,000 par value Federal Home Loan Bank notes, recorded at cost of \$1,665,809, which approximates market value, as well as \$7,730 in Bank of New York Mellon Cash Reserve Funds. The inputs to the fair value measurement are considered Level 1 in the fair value hierarchy.

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

At June 30, 2015 and 2014, the balances in these funds were as follows:

	2015	2014
Construction and acquisition fund	\$ 4,195,360	4,762,841
Reserve fund	1,673,539	1,667,295
Expense fund	9,467	9,466
Debt service fund	982,111	1,008,830
	\$ 6,860,477	7,448,432

Fair value measurements of the Series 2011 Bonds is based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs. The fair value of the Series 2011 Bonds approximated \$17,900,000 and \$18,200,000 at June 30, 2015 and 2014, respectively.

The future debt service payments on the bonds are as follows:

	Principal	Interest	Total debt service
Year ending June 30:			
2016	\$ 1,290,000	674,000	1,964,000
2017	1,335,000	622,400	1,957,400
2018	1,410,000	555,650	1,965,650
2019	1,465,000	499,250	1,964,250
2020	1,525,000	440,650	1,965,650
Thereafter	8,275,000	1,539,250	9,814,250
	\$ 15,300,000	4,331,200	19,631,200

Interest on the Series 2011 Bonds ranges from 3.0% to 5.0% per annum. Interest expense on the outstanding bond obligation was \$698,800 and \$743,181 for the years ended June 30, 2015 and 2014, respectively.

The Partnership is required to meet certain financial covenants in connection with the respective outstanding bonds. For the years ended June 30, 2015 and 2014, the Partnership was in compliance with these covenants.

(5) Pension Benefits

The Partnership has a defined contribution retirement plan covering all personnel. Pension cost for the years ended June 30, 2015 and 2014 was \$118,031 and \$92,286, respectively.

(6) Lease Agreements

On February 11, 2015, the Partnership and Bryant Park Corporation (BPC) amended their lease agreement at 1065 Avenue of the Americas, New York, New York to include additional space, with an expansion premises commencement date of May 1, 2015. The original lease commenced on January 1, 2010 and expires

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

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(with comparative financial information as of June 30, 2014)

on February 28, 2018. The Partnership has been allocated its proportionate share, based on utilization, of the straight-line rental expense and deferred rent obligation for this lease. The Partnership's share of rent expense amounted to \$147,771 and \$152,188 for the years ended June 30, 2015 and 2014, respectively. Deferred rent obligation of \$82,125 and \$72,306 at June 30, 2015 and 2014, respectively, is included in accounts payable and accrued expenses.

The Partnership also leases space at 212 West 35th Street, New York, New York, under a lease that commenced on February 1, 1997 and expires on August 31, 2020. Rent expense for the space at 212 West 35th Street was \$150,264 and \$144,561 for the years ended June 30, 2015 and 2014, respectively.

The future minimum lease payments, based on current allocation percentages, are as follows:

	<u>212 West 35th Street</u>	<u>1065 Avenue of the Americas</u>	<u>Total</u>
Year ending June 30:			
2016	\$ 208,254	202,092	410,346
2017	222,315	211,398	433,713
2018	227,873	142,738	370,611
2019	233,570	—	233,570
2020	239,409	—	239,409
Thereafter	40,064	—	40,064
	<u>\$ 1,171,485</u>	<u>556,228</u>	<u>1,727,713</u>

The Partnership is jointly liable for total lease commitments of \$1,390,570 at 1065 Avenue of the Americas.

(7) **Litigation**

The Partnership is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, management is of the opinion that eventual liability, if any, will not have a material effect on the financial position of the Partnership.

(8) **Related Parties**

The Partnership shares common management and office space with BPC and its affiliated business improvement district, Bryant Park Management Corporation (BPMC). At June 30, 2015 and 2014, the Partnership was indebted to BPC and BPMC for its net proportionate share of certain joint revenues and expenses in the amount of \$48,214 and \$11,766, respectively.

34TH STREET PARTNERSHIP, INC.

Notes to Financial Statements

June 30, 2015

(with comparative financial information as of June 30, 2014)

(9) Subsequent Events

In connection with the preparation of the financial statements, the Partnership evaluated subsequent events after the balance sheet date of June 30, 2015 through October 16, 2015, which was the date the financial statements were issued. The Partnership has determined that there are no subsequent events to disclose.