

**THEATER SUBDISTRICT COUNCIL
LOCAL DEVELOPMENT CORPORATION**

**FINANCIAL STATEMENTS
YEAR ENDED MAY 31, 2019**

and

INDEPENDENT AUDITORS' REPORTS

**THEATER SUBDISTRICT COUNCIL
LOCAL DEVELOPMENT CORPORATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Theater Subdistrict Council Local Development Corporation
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Theater Subdistrict Council Local Development Corporation, which comprise the government-wide statement of net position as of May 31, 2019 and the statement of activities for the year then ended, and the governmental fund balance sheet as of May 31, 2019 and the statement of revenues, expenditures and changes in fund balances 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 governmental activities of Theater Subdistrict Council Local Development Corporation as of May 31, 2019, and the changes in financial position for the 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 the management’s discussion and analysis on pages 3 through 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 audit 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 December 10, 2019, on our consideration of Theater Subdistrict Council Local Development Corporation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Theater Subdistrict Council Local Development Corporation’s 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 Theater Subdistrict Council Local Development Corporation’s internal control over financial reporting and compliance.

Caballero & Associates

December 10, 2019

**THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
May 31, 2019**

The following Management’s Discussion and Analysis (MD&A) provides a comprehensive overview of the Theater Subdistrict Council Local Development Corporation’s (the “TSC”) financial position as of May 31, 2019, and the result of its operations for the year then ended.

Management has prepared the financial statements along with this MD&A. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position. The MD&A should be read in conjunction with the audited financial statements of the TSC, which directly follow the MD&A.

Budget

The TSC depends on fees paid by land use applicants filing applications with the New York City Department of City Planning for the majority of the funding used to advance the TSC’s program. The TSC does not rely on other grants, loans, investments, or interest income, for revenue. Because application filings are irregular and dependent on private actors, the TSC cannot make detailed projections of future grant rounds because funding is not assured.

Financial Highlights

- Assets of the TSC exceeded liabilities as of May 31, 2019 by \$246K, compared to \$1.36M as of May 31, 2018. The decrease in assets is a result of \$1.1M in grant awards from June 1, 2018 until May 31, 2019 (“FY2019”). TSC also has a mandated reserve of \$75K which is part of the restricted net position balance as of May 31, 2019.
- 11 Grants in the amount of \$1.3M were paid out of the TSC’s funds in FY2019 in support of the TSC’s mission to promote theater and theater-related uses and to enhance the long-term viability of Broadway by facilitating the production of theater and by developing new audiences.
- Total revenues for FY2019 were limited to approximately \$5K in bank interest on existing funds. No potential future contributions are in the Department of City Planning’s application pipeline, indicating a need to pause grant-making for the foreseeable future.
- Total expenses of \$1.12M were dominated by the \$1.1M in FY2019 grant awards. Overall, expenses increased from prior year by \$648K as a result of grant-making, but non-programmatic expenses declined by 34% in FY2019.

Overview of the Basic Financial Statements

The financial statements of the TSC have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”).

The basic financial statements consist of a Statement of Net Position, a Statement of Activities, a Statement of Governmental Fund Balance Sheet, a Statement of Revenues, Expenditures and Changes in Fund Balances and accompanying notes. These statements provide information on the financial position of the TSC and the financial activity and results of its operations during the year. A description of these statements follows:

- The Statement of Net Position and Governmental Fund Balance Sheet present information on the TSC’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial

**THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
May 31, 2019**

position of the TSC is improving or deteriorating.

- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances present information showing the change in the TSC's net position during the most recent fiscal year. All changes in net position/fund balance are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement include all items that will result in cash received or disbursed in future fiscal periods.

Financial Analysis

Our analysis below focuses on the net position (Figure 1) and activities (Figure 2) of the TSC. The interest income (bank interest) for the TSC was \$4,889 for FY2019. This was an increase of 36% over the prior year. At the close of FY2019, the TSC had a net position of \$245,543. No application fee revenue was received in FY2019 and no applications are currently in progress.

Outstanding accrued expenses totaled \$221,520 and consist primarily of outstanding grant payments that have not yet been transferred, as planned in the grant agreements.

A portion of the fund balance amounting to \$75,000 is reserved to continue to support the TSC, as required by the NYC Zoning Resolution.

Figure 1: Condensed Statement of Net Position

Condensed Statement of Net Position	Activities		Total Dollar Change
	2018	2019	2018-2019
Assets			
Cash - Restricted	\$ 1,818,681	\$ 467,063	
Total Assets	\$ 1,818,681	\$ 467,063	\$ (1,351,618)
Liabilities			
Accounts Payable and Accrued Expense	\$ 460,991	\$ 221,520	
Total Liabilities	\$ 460,991	\$ 221,520	\$ (239,471)
Net Position	\$ 1,357,690	\$ 245,543	\$ (1,112,147)
Total Net Position	\$ 1,357,690	\$ 245,543	\$ (1,112,147)

The TSC's prime objective is to promote theater and theater-related uses and to enhance the long-term viability of Broadway by facilitating the production of theater and by developing new audiences. The TSC's programmatic activities are comprised of grants to arts organizations dedicated to supporting this mission.

During FY2019, the TSC awarded 11 grants totaling \$1.1M to arts organizations. General and administrative expenses included fees for audit and tax-preparation services, tax filings and consulting expenses.

**THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
May 31, 2019**

Figure 2: Changes in Net Position

Changes in Net Position	Activities		Total Dollar Change
	2018	2019	2018-2019
Operating Revenues			
Application Fee Income	\$ -	\$ -	\$ -
Interest Income	\$ 3,587	\$ 4,889	\$ 1,302
Total Revenues	\$ 3,587	\$ 4,889	\$ 1,302
Operating Expenses			
Program expenses	\$ 446,420	\$ 1,101,911	\$ 655,491
General and administrative expenses	\$ 22,821	\$ 15,125	\$ (7,696)
Total Expenses	\$ 469,241	\$ 1,117,036	\$ 647,795
Change in Net Position	\$ (465,654)	\$ (1,112,147)	\$ (646,493)

Factors Bearing on the TSC's Future

With no potential contributions in the application process, the TSC must suspend all future grant-making until the TSC's balance grows to support an impactful grant. Potential exists for small-scale support of arts organizations, but to date, this type of grant-making has not been a part of the Board's strategy.

Contacting the TSC's Financial Management

This financial report is designed to provide the TSC's clients, grantees and regulators with a general overview of the TSC's finances and to demonstrate the TSC's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the New York City Department of City Planning, at 120 Broadway, 31st Floor, New York, NY 10271.

THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
STATEMENT OF NET POSITION
AS OF MAY 31, 2019

Assets	
Cash	\$ 467,063
Total assets	<u>\$ 467,063</u>
Liabilities and net position	
Liabilities	
Accounts payable and accrued expenses	\$ 221,520
Total liabilities	221,520
Net position	
Restricted	<u>245,543</u>
Total net position	<u>245,543</u>
Total liabilities and net position	<u>\$ 467,063</u>

The accompanying notes are an integral part of the financial statements.

THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2019

Revenues	
Interest	<u>\$ 4,889</u>
Expenses	
Grants to other organizations	1,100,000
Meeting expenses	1,911
Outside services	14,400
Professional fees	500
Fees and permits	225
Total expenses	<u>1,117,036</u>
Change in net position	(1,112,147)
Net position - beginning of year	<u>1,357,690</u>
Net position - end of year	<u><u>\$ 245,543</u></u>

The accompanying notes are an integral part of the financial statements.

THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
GOVERNMENTAL FUND BALANCE SHEET
AS OF MAY 31, 2019

	General Fund	Total Governmental Funds
Assets		
Cash	\$ 467,063	\$ 467,063
Total assets	\$ 467,063	\$ 467,063
Liabilities and fund balance		
Liabilities		
Accounts payable and accrued expenses	\$ 221,520	\$ 221,520
Total liabilities	221,520	221,520
Fund balance		
Restricted	245,543	245,543
Total liabilities and fund balance	\$ 467,063	\$ 467,063

The accompanying notes are an integral part of the financial statements.

**THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2019**

	General Fund	Total Governmental Funds
Revenues		
Interest	\$ 4,889	\$ 4,889
Expenses		
Grants to other organizations	1,100,000	1,100,000
Meeting expenses	1,911	1,911
Outside services	14,400	14,400
Professional fees	500	500
Fees and permits	225	225
Total expenses	1,117,036	1,117,036
Net change in fund balance	(1,112,147)	(1,112,147)
Fund balance - beginning of year	1,357,690	1,357,690
Fund balance - end of year	\$ 245,543	\$ 245,543

The accompanying notes are an integral part of the financial statements.

THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2019

NOTE 1. NATURE OF ORGANIZATION

Theater Subdistrict Council Local Development Corporation (the “Organization”) is a not-for-profit organization formed under New York Not-For-Profit Corporation Law. The Organization was established pursuant to the Theater Subdistrict regulations of a 1998 New York City Zoning Resolution.

The Organization was formed for the purpose of promoting theater and theater-related use and preserving and promoting the welfare of the New York City Theater Subdistrict. The Theater Subdistrict is a designated area in New York City that includes several Broadway theaters.

The Organization is governed by a Board of Directors, which consist of eight (8) members. The members of the Board of Directors include the Mayor of the City of New York, three (3) persons appointed by the Mayor from the performing arts, theatrical or related industries, the Director of the Department of City Planning of the City of New York, the Speaker of the City Council of the City of New York and his or her designee, and the Manhattan Borough President.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Organization’s government-wide financial statements, which include the statement of net position and the statement of activities, are presented to provide information about the reporting entity as a whole, in accordance with the standards issued by the Governmental Accounting Standards Board (“GASB”). The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when incurred, regardless of the timing of cash flows.

The Organization’s governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenue is generally considered available if expected to be received within one year after period end. Expenditures are recognized when the related liability is incurred.

As there are no differences between the Organization’s government-wide financial statements and its governmental fund financial statements as of and for the year ended May 31, 2019, no reconciliations are provided.

The Organization’s financial statements prior to the year ended May 31, 2019 were prepared in accordance with the standards issued by the Financial Accounting Standards Board. For the year ended May 31, 2019, the Organization prepared the financial statements in accordance with the standards issued by GASB to comply with the reporting and accounting requirements for New York public authorities.

Use of Estimates

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

THEATER SUBDISTRICT COUNCIL LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2019

Net position/fund balances

Net position is classified into two components: restricted and unrestricted. Fund balances are classified as either: nonspendable, restricted, committed, assigned, or unassigned.

The Organization is required to maintain \$75,000 of its net position for inspection and monitoring of certain theatres and their compliance with the maintenance and use obligations. This amount is included in the restricted net position on the statement of net position and restricted fund on the statement of governmental fund balance sheet. This requirement was stipulated by Zoning resolution section 81-741(i)(1) and approved on May 9, 2011 by the City Planning Commission, City of New York.

Revenue

Under Zoning resolution 81-744, *Transfer of Development Rights from Listed Theaters*, when unused development rights of a Broadway theater are transferred, the parties to the transaction must make a payment that is deposited in the Theater Subdistrict Fund. The amount payable to the Theater Subdistrict Fund is calculated pursuant to Zoning Regulation 81-744 (a)(5). For the year ended May 31, 2019, no revenues were recognized as there were no transfer of development rights during the year.

NOTE 3. INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). This IRC section enables the Organization to accept donations which qualify as charitable contributions to the donor. The Organization has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Accordingly, no provision for income taxes has been made in the financial statements. The Organization files with the Internal Revenue Service Form 990, *Return of Organization Exempt from Income Tax*, and the related State and local exempt organization returns as required. Based on applicable statute of limitations, the Organization's tax returns generally remain open for examination by tax authorities for three (3) years after filing. As of May 31, 2019, the Organization was not subject to any examination by a taxing authority.

NOTE 4. FAIR VALUE MEASUREMENTS

The Organization follows the accounting guidance for fair value measurement for measuring fair value of assets and liabilities in its financial statements. The Organization's financial instruments consist of cash, accounts payable and accrued expenses. The carrying amounts of these instruments approximate fair value due to their short-term nature.

NOTE 5. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in bank deposit accounts, which at times, may exceed the insured limits of \$250,000 per financial institution. At May 31, 2019, the cash balance in excess of FDIC insured limits was approximately \$217,063. The Organization has not experienced any credit losses and management believes it is not exposed to any significant credit risk related to the cash amounts.

NOTE 6. SUBSEQUENT EVENTS

The Organization's management has performed subsequent events procedures through December 10, 2019, which is the date the financial statements were available to be issued.



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INDEPENDENT AUDITORS' 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 of
Theater Subdistrict Council Local Development Corporation
New York, New York

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 Theater Subdistrict Council Local Development Corporation (the "Organization"), which comprise the government-wide statement of net position as of May 31, 2019 and the statement of activities for the year then ended, and the governmental fund balance sheet as of May 31, 2019 and the statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Theater Subdistrict Council Local Development Corporation'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 Theater Subdistrict Council Local Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Theater Subdistrict Council Local Development Corporation'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 and therefore, material weaknesses or significant deficiencies may

exist that have not been identified. We did identify certain deficiencies in internal control described below that we consider to be material weaknesses.

Finding No. 2019-01

The financial Statements for the year ended May 31, 2019 were originally prepared under Financial Accounting Standards Board (FASB) pronouncements. The Organization is a public authority and is required to prepare financial statements under Governmental Accounting Standards Board (“GASB”) pronouncements.

Paragraph c of 2 CRR-NY 201.2 indicates in part that:

“... Since public authorities are governmental entities, the accounting principles followed should be those prescribed by the Governmental Accounting Standards Board or its successors and should be applied on a consistent basis....”

Additionally, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* states that:

“Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities...”

The original version of the financial statements prepared by management did not include all the reports required by GASB; for instance, the section for Management Discussion and Analysis.

Recommendation

We recommended that management revise the financial statements to be in accordance with GASB pronouncements. Management has accepted our recommendation.

Management Response

Management agrees with the auditor recommendation above and has revised the financial statements to comply with GASB requirements.

Finding No. 2019-02

Classification of net assets/fund balance was originally presented as unrestricted rather than being presented as restricted.

The relevant provisions of Zoning Resolution 81-70, *Special Regulations for Theater Subdistrict* (the “Zoning Resolution”), specify how the funds shall be expended. The Zoning Resolution states in part (pages 237 and 238 of the web version of the Zoning Resolution):

“...the remainder of such revenue shall be used for activities chosen by the Theater Subdistrict Council furthering the objectives and purposes of this Section....”

We also note that page 207 of the web version of the Zoning Resolution has the following relevant provision:

"...The Theater Subdistrict Council shall be a not-for-profit corporation whose organizational purpose shall be limited solely to promoting theater and theater-related use and preservation within the Theater Subdistrict and promoting the welfare of the Theater Subdistrict generally. The goals of the Theater Subdistrict shall include enhancing the long-term viability of Broadway by facilitating the production of plays and audiences for all types of theatrical productions, and monitoring preservation and use covenants in Broadway's "listed theaters"."

The original version of the financial statements prepared by management presented the net assets as unrestricted, which had implied that the funds are available and can be spent without any restrictions.

Recommendation

We recommended that management appropriately classify the net assets as restricted based on the provisions of the Zoning Resolution.

Management Response

The Organization's management has revised the financial statements be in accordance with GASB pronouncements and the net assets have been presented as restricted in the statement of net position.

Compliance and Other Matters

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

Theater Subdistrict Council Local Development Corporation's Response to Findings

Theater Subdistrict Council Local Development Corporation's responses to the findings identified in our audit are detailed above.

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 Theater Subdistrict Council Local Development Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caballero & Associates

December 10, 2019