



NEWARK DOWNTOWN DISTRICT

NEWARK DOWNTOWN DISTRICT MANAGEMENT CORPORATION

Financial Statements

December 31, 2022 and 2021

With Independent Auditor's Report

Newark Downtown District Management Corporation
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December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Newark Downtown District Management Corporation:

Opinion

We have audited the financial statements of Newark Downtown District Management Corporation (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities and changes in net assets (deficit), functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, and the changes in its net assets (deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

As described in Note 1, the Organization adopted Topic 842 as of January 1, 2022. Prior period amounts have not been adjusted and continue to be reported in accordance with the Organization's historic accounting under Topic 840. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Withum Smith + Brown, PC

September 12, 2023

Newark Downtown District Management Corporation
Statements of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,244,257	\$ 1,619,700
Cash - board designated reserves	2,500,966	2,843,431
Service fee and other receivables	2,605	27,229
Prepaid expenses	<u>64,655</u>	<u>67,760</u>
Total current assets	<u>4,812,483</u>	<u>4,558,120</u>
 Furniture, equipment and capital improvements, net	 <u>864,582</u>	 <u>1,355,886</u>
 Right-of-use asset, net	 <u>874,808</u>	 <u>-</u>
 Other assets		
Assets whose use is limited - cash	1,028,038	1,082,240
Other noncurrent assets	<u>171,048</u>	<u>207,466</u>
Total other assets	<u>1,199,086</u>	<u>1,289,706</u>
 Total assets	 <u>\$ 7,750,959</u>	 <u>\$ 7,203,712</u>
 Liabilities and Net Assets		
Current liabilities		
Current portion of bonds payable	\$ 310,000	\$ 295,000
Accounts payable and accrued expenses	241,876	229,748
Accrued interest expense payable	14,532	15,161
Lease liability - current portion	<u>179,881</u>	<u>-</u>
Total current liabilities	<u>746,289</u>	<u>539,909</u>
 Long-term liabilities		
Bonds payable, less current portion, original issue discount and unamortized debt issuance costs	6,330,170	6,633,725
Lease liability - net of current portion	<u>694,927</u>	<u>-</u>
Total liabilities	<u>7,771,386</u>	<u>7,173,634</u>
 Net assets - without donor restrictions		
Operations	(2,521,393)	(2,813,353)
Board designated reserves	<u>2,500,966</u>	<u>2,843,431</u>
Total net assets - without donor restrictions	<u>(20,427)</u>	<u>30,078</u>
 Total liabilities and net assets	 <u>\$ 7,750,959</u>	 <u>\$ 7,203,712</u>

The Notes to Financial Statements are an integral part of these statements.

Newark Downtown District Management Corporation
Statements of Activities and Changes in Net Assets (Deficit)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues and other support		
Special improvement district assessments	\$ 5,071,250	\$ 5,071,250
Expenses		
Program expenses		
Improvement expenses	3,249,922	3,536,032
Marketing and promotion expenses	<u>293,166</u>	<u>247,822</u>
Total program expenses	3,543,088	3,783,854
Management and general expenses	<u>1,222,406</u>	<u>1,050,344</u>
Total expenses	<u>4,765,494</u>	<u>4,834,198</u>
Changes in net assets (deficit) before other income (expense)	<u>305,756</u>	<u>237,052</u>
Other income (expense)		
Other income, net	15,511	23,062
Interest income	49,034	8,879
Paycheck Protection Program loan forgiveness	-	163,500
Loss on disposal of furniture, equipment and capital improvements, net	(58,674)	(61,608)
Interest expense	<u>(362,132)</u>	<u>(379,080)</u>
Total other income (expense)	<u>(356,261)</u>	<u>(245,247)</u>
Changes in net assets (deficit)	(50,505)	(8,195)
Net assets (deficit)		
Beginning of year	<u>30,078</u>	<u>38,273</u>
End of year	<u>\$ (20,427)</u>	<u>\$ 30,078</u>

The Notes to Financial Statements are an integral part of these statements.

Newark Downtown District Management Corporation
Statement of Functional Expenses
Year Ended December 31, 2022

	<u>Improvement Programs</u>				<u>Marketing and Promotion Expenses</u>	<u>Total Program Expenses</u>	<u>Management and General Expenses</u>	<u>Total Expenses</u>
	<u>District-Wide Streetscape</u>	<u>Clean Team</u>	<u>Quality Of Life</u>	<u>Total Improvement Programs</u>				
Salaries	\$ 176,764	\$ 132,573	\$ 88,382	\$ 397,719	\$ 88,382	\$ 486,101	\$ 397,720	\$ 883,821
Employee benefits	4,575	3,431	2,288	10,294	2,288	12,582	10,294	22,876
Payroll taxes	15,616	11,712	7,808	35,136	7,808	42,944	35,138	78,082
Recruiting fees	-	-	-	-	-	-	2,197	2,197
Lease expense	56,276	60,000	-	116,276	-	116,276	138,557	254,833
Consultant and project design fees	108,079	1,717,909	144,130	1,970,118	-	1,970,118	257,845	2,227,963
Landscaping	286,294	-	-	286,294	-	286,294	-	286,294
Conferences and seminars	-	-	-	-	-	-	42,186	42,186
Professional fees	-	-	-	-	-	-	132,264	132,264
Depreciation	432,631	-	-	432,631	-	432,631	-	432,631
Insurance	-	-	-	-	-	-	80,107	80,107
Telephone expenses	-	-	-	-	-	-	10,066	10,066
Office expense	-	-	-	-	-	-	34,864	34,864
Payroll fees	646	485	323	1,454	323	1,777	1,455	3,232
Office equipment lease and maintenance	-	-	-	-	-	-	8,355	8,355
Staff and board meeting expenses	-	-	-	-	-	-	20,646	20,646
City assessment 1% fee	-	-	-	-	-	-	50,712	50,712
Printing	-	-	-	-	26,648	26,648	-	26,648
Advertising	-	-	-	-	2,500	2,500	-	2,500
Community events	-	-	-	-	153,032	153,032	-	153,032
Website host and maintenance	-	-	-	-	12,185	12,185	-	12,185
	<u>\$ 1,080,881</u>	<u>\$ 1,926,110</u>	<u>\$ 242,931</u>	<u>\$ 3,249,922</u>	<u>\$ 293,166</u>	<u>\$ 3,543,088</u>	<u>\$ 1,222,406</u>	<u>\$ 4,765,494</u>

The Notes to Financial Statements are an integral part of this statement.

Newark Downtown District Management Corporation
Statement of Functional Expenses
Year Ended December 31, 2021

	<u>Improvement Programs</u>			<u>Total Improvement Programs</u>	<u>Marketing and Promotion Expenses</u>	<u>Total Program Expenses</u>	<u>Management and General Expenses</u>	<u>Total Expenses</u>
	<u>District-Wide Streetscape</u>	<u>Clean Team</u>	<u>Quality Of Life</u>					
Salaries	\$ 181,248	\$ 135,936	\$ 90,624	\$ 407,808	\$ 90,624	\$ 498,432	\$ 407,807	\$ 906,239
Employee benefits	6,349	4,762	3,175	14,286	3,175	17,461	14,285	31,746
Payroll taxes	15,149	11,362	7,574	34,085	7,574	41,659	34,085	75,744
Recruiting fees	-	-	-	-	-	-	27,331	27,331
Lease expense	32,755	60,000	-	92,755	-	92,755	128,587	221,342
Consultant and project design fees	209,913	1,841,161	138,542	2,189,616	-	2,189,616	131,703	2,321,319
Landscaping	324,587	-	-	324,587	-	324,587	-	324,587
Conferences and seminars	-	-	-	-	-	-	32,976	32,976
Professional fees	31,710	-	-	31,710	-	31,710	92,763	124,473
Depreciation	439,746	-	-	439,746	-	439,746	-	439,746
Insurance	-	-	-	-	-	-	72,973	72,973
Telephone expenses	-	-	-	-	-	-	10,341	10,341
Office expense	-	-	-	-	-	-	24,279	24,279
Payroll fees	639	480	320	1,439	320	1,759	1,438	3,197
Office equipment lease and maintenance	-	-	-	-	-	-	11,170	11,170
Staff and board meeting expenses	-	-	-	-	-	-	9,894	9,894
City assessment 1% fee	-	-	-	-	-	-	50,712	50,712
Printing	-	-	-	-	22,091	22,091	-	22,091
Advertising	-	-	-	-	5,834	5,834	-	5,834
Community events	-	-	-	-	105,983	105,983	-	105,983
Website host and maintenance	-	-	-	-	12,221	12,221	-	12,221
	<u>\$ 1,242,096</u>	<u>\$ 2,053,701</u>	<u>\$ 240,235</u>	<u>\$ 3,536,032</u>	<u>\$ 247,822</u>	<u>\$ 3,783,854</u>	<u>\$ 1,050,344</u>	<u>\$ 4,834,198</u>

The Notes to Financial Statements are an integral part of this statement.

Newark Downtown District Management Corporation
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating activities		
Changes in net assets (deficit)	\$ (50,505)	\$ (8,195)
Adjustments to reconcile changes in net assets (deficit) to net cash provided by operating activities		
Depreciation expense	432,631	439,746
Interest expense for amortization of bond issuance cost	6,445	6,019
Forgiveness of Paycheck Protection Program Loan	-	(163,500)
Loss on disposal of furniture, equipment and capital improvements, net	58,673	61,608
Amortization of right-of-use asset	177,647	-
Change in		
Service fee and other receivables	24,624	8,698
Prepaid expenses	3,105	(33,605)
Other noncurrent assets	36,418	(36,632)
Accounts payable and accrued expenses	12,128	(7,433)
Accrued interest expense payable	(629)	(598)
Lease liability	<u>(177,647)</u>	<u>-</u>
Net cash provided by operating activities	<u>522,890</u>	<u>266,108</u>
Investing activities		
Purchase of furniture, equipment and capital improvements	<u>-</u>	<u>(11,795)</u>
Net cash used in investing activities	<u>-</u>	<u>(11,795)</u>
Financing activities		
Payment of Economic Injury Disaster Loan	-	(150,000)
Payment of bonds payable	<u>(295,000)</u>	<u>(280,000)</u>
Net cash used in financing activities	<u>(295,000)</u>	<u>(430,000)</u>
Net change in cash, cash equivalents, and restricted cash	227,890	(175,687)
Cash, cash equivalents, and restricted cash		
Beginning of year	<u>5,545,371</u>	<u>5,721,058</u>
End of year	<u>\$ 5,773,261</u>	<u>\$ 5,545,371</u>
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	\$ 2,244,257	\$ 1,619,700
Asset whose use is limited	1,028,038	1,082,240
Cash - board designated reserves	<u>2,500,966</u>	<u>2,843,431</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 5,773,261</u>	<u>\$ 5,545,371</u>
Supplemental disclosure of cash flow information		
Cash paid during year for interest	<u>\$ 355,687</u>	<u>\$ 370,452</u>
Supplemental disclosure of non-cash investing and financing activities		
Increases in right of use asset and lease liability upon adoption of Topic 842	<u>\$ 1,052,455</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

Newark Downtown District Management Corporation

Notes to Financial Statements

December 31, 2022 and 2021

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Newark Downtown District Management Corporation (the "Organization") was established in February 1998 as a nonprofit organization. In September 1998, the Organization was designated by the City of Newark (the "City") to be the District Management Corporation for its Special Improvement District ("SID") and is governed by a volunteer Board of Trustees. The Organization's purpose is to revitalize Downtown Newark by improving the economic viability of the central business district, and enhancing the quality of life for residents, workers, students and visitors to the City of Newark. Funding for the Organization is derived from a special assessment to property owners in the Special Improvement District and sponsorships.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis and in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets (deficit). For the years ended December 31, 2022 and 2021 the Organization had no net assets with donor restrictions.

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets (deficit) and in the statements of functional expenses. Costs that are directly related to a specific program or general and administrative are directly charged to their functional category. Certain costs have been allocated among the programs and supporting services in ratios determined by management to reflect the benefit received. Salaries, employee benefits, payroll taxes, and payroll fees are allocated on the basis of the amount of time and effort spent by each employee on each functional category.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in the bank as well as all short-term securities held for the primary purpose of general liquidity. Such securities normally mature within three months from the date of acquisition.

Bond Discount

Discounts on bonds are amortized over the term of the related bond using the effective interest method.

Income Taxes

The Organization is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, the accompanying financial statements do not reflect provisions for federal and state income taxes.

Newark Downtown District Management Corporation
Notes to Financial Statements
December 31, 2022 and 2021

The Organization evaluates tax positions requiring recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured at the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The Organization has evaluated the likelihood of their tax-exempt status being challenged as remote. Accordingly, as of December 31, 2022 or 2021, the Organization has not included any income tax provisions, including interest and penalties, in the financial statements.

Financial Instruments

The Organization's financial instruments as of December 31, 2022 and 2021 include cash and cash equivalents, receivables, accounts payable, accrued liabilities long term debt and deferred revenues. The carrying value of long-term debt approximates their fair value as the interest rate is reflective of interest rates available in the marketplace. The carrying value of the remaining financial instruments approximates their fair value due to the relatively short maturities of these instruments.

Service Fees and Other Receivables

Service fees and other receivables are stated without allowance for doubtful accounts. The Organization's experience indicates that an allowance for doubtful accounts would not be significantly different than the direct write-off method; therefore, no allowance for doubtful accounts is presented.

Support and Revenue

Grants and other contributions of cash and other assets are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities and changes in net assets (deficit) as net assets released from restrictions. Contributions with no restrictions are recorded as received.

Use of Estimates - Significant Estimates

The preparation of financial statements in conformity 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 disclosures 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. Significant estimates included in the preparation of these financial statements include the estimated useful lives of depreciable assets and the present value of the fixed lease payments of lease liabilities.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Organization compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Organization does not believe that any material impairment exists related to its long-lived assets.

Newark Downtown District Management Corporation
Notes to Financial Statements
December 31, 2022 and 2021

Furniture, Equipment and Capital Improvements

Furniture, equipment and capital improvements are recorded at cost. The Organization's policy is to capitalize all asset purchases greater than \$5,000. Depreciation of furniture, equipment and capital improvements is provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Life (Years)</u>
Furniture and fixtures	7
Equipment	5
District improvements	39
Streetscape project	15
Website	15
Leasehold improvements	15-39

Compensated Absences

Employees of the Organization are entitled to paid vacation and sick time, depending upon length of service. The Organization's policy is for the employees to use their vacation time in the current year. If the vacation is not utilized, it cannot be carried into the following year. Only under certain circumstances does management allow for an employee to carry unused vacation to the following year. As of the years ended December 31, 2022 and 2021, there were no unused vacation days carried to the following year.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended December 31, 2022 and 2021, the Organization had advertising costs of \$2,500 and \$5,834, respectively.

Leases

The Organization categorizes leases with contractual terms longer than twelve months as either operating or finance. Finance leases are generally those leases that allow the Organization to substantially utilize or pay for the entire asset over its estimated life. All other leases categorized as operating leases. Leases with contractual terms of twelve months or less are not recorded on the statement of financial position. The Organization had no finance leases during 2022 and 2021.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes, and maintenance. For leases of property, the Organization accounts for these other services as a component of the lease. For all other leases, the services are accounted for separately and the Organization allocates payments to the lease and other service components based on estimated stand-alone prices.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on similarly secured borrowings available. Right of use assets are recognized based on the initial present value of the fixed lease payments. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Newark Downtown District Management Corporation
Notes to Financial Statements
December 31, 2022 and 2021

Recent Accounting Pronouncements Adopted

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) amending the accounting for leases. The Organization adopted the new standard effective January 1, 2022, using the modified retrospective approach. Comparative prior periods were not adjusted upon adoption, as the Organization utilized the practical expedients, whereby the Organization did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs.

Upon adoption, the Organization recognized \$1,052,455 in right-of-use (“ROU”) asset related to its leased property and equipment. A corresponding lease liability of \$1,052,455 was also recognized. There was no cumulative effect of applying the new standard and accordingly, there was no adjustment to retained earnings upon adoption.

Gifts In-Kind

During 2022, the Organization adopted Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash or other financial assets, along with expanded disclosure requirement. The adoption of the ASU did not have a material effect to the financial statements.

2. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2022 and 2021, the Organization’s liquidity recourses and financial assets available within one year for general expenditure, such as operating expenses were as follows:

	<u>2022</u>	<u>2021</u>
Financial assets		
Cash and cash equivalents	\$ 2,244,257	\$ 1,619,700
Cash - board designated operating reserve	2,195,580	2,542,387
Service fee and other receivables	<u>2,605</u>	<u>27,229</u>
Financial assets and liquidity resources	<u>\$ 4,442,442</u>	<u>\$ 4,189,316</u>

The Organization regularly monitors liquidity required to meet its operating needs and commitments. Assets whose use is limited is available to pay debt service costs.

3. ASSETS WHOSE USE IS LIMITED

In accordance with the provisions of the loan agreement relating to bonds payable, as further described in Note 6, the Organization is required to have funds in accounts held by a trustee and segregated from all other funds. These restricted funds are to be used for financing costs and were cash and cash equivalents at December 31, 2022 and 2021. In 2012, the bond attorney approved these restricted funds to be used for the Community Resource Center (the “CRC”). The CRC was created to improve the safety and cleanliness in the central business district to make it more “Business Friendly” and “Family Friendly.”

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Restricted cash consists of assets that are held by the trustee and include the following accounts at December 31:

	<u>2022</u>	<u>2021</u>
Direct wide streetscape project		
Revenue account	\$ 157,077	\$ 147,539
Principal account	2	2
Interest account	3,517	3,214
Construction fund - 2019 project account	189,890	262,888
Debt service reserve fund	676,517	667,577
Costs of issuance fund	1,035	1,020
	<u>\$ 1,028,038</u>	<u>\$ 1,082,240</u>

Debt service fund:

Revenue account - An amount received from the operating bank account to pay principal account and interest account.

Principal account - An amount to pay the principal of the related series of bonds at maturity or at such other time as the same may become due and payable.

Interest account - An amount to pay the interest becoming due on the related series of bonds on each interest payment date and to pay accrued interest on such bonds to be redeemed.

Construction fund project account - An amount for payment of costs of each project for which any bonds are issued thereunder.

Debt service reserve fund - An amount equal to the debt service reserve fund requirement for the Series 2019 Bonds.

Costs of issuance fund - An amount set forth in connection with the issuance and sale for the Series 2019 Bonds.

4. SERVICE FEES AND OTHER RECEIVABLES

The Organization entered into various agreements where the Organization charges a fee for the use of their ambassadors and streetscape service. These fees are recorded net of the expenses. Such fees are governed by ASC 606, *Revenue from Contracts with Customers* (“ASC 606”). Under ASC 606, in determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Organization performs the following steps: (i) identify contracts with customers; (ii) identify performance obligations; (iii) determine the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Organization satisfies each performance obligation. Receivables for these services at December 31, 2022 and 2021 were \$2,338 and \$27,229, respectively, and are included in service fee and other receivables on the statements of financial position. Service fee revenue as of December 31, 2022 and 2021 was \$6,493 and \$8,341, respectively, and is included in other income, net in the statements of activities and changes in net assets (deficit).

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The Organization entered into an agreement in 2016 with the City of Newark where the Organization is responsible for the street pole banner management. The Organization is responsible for managing and selling advertising signage space on the light poles within the Special Improvement District (“SID”).

Management believes all receivables are fully collectible and no valuation allowance is recorded at December 31, 2022 or 2021.

5. FURNITURE, EQUIPMENT AND CAPITAL IMPROVEMENTS

Furniture, equipment and capital improvements are stated at cost or management’s estimate of cost as follows:

	<u>2022</u>	<u>2021</u>
Streetscape project	\$ 5,342,385	\$ 5,507,416
Leasehold improvements	177,137	101,184
Furniture and fixtures	55,367	55,367
Equipment and website	<u>469,324</u>	<u>469,323</u>
	6,044,213	6,133,290
Less: Accumulated depreciation	<u>5,179,631</u>	<u>4,777,404</u>
	<u>\$ 864,582</u>	<u>\$ 1,355,886</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$432,631 and \$439,746, respectively, and is included in the statements of activities and changes in net assets (deficit).

6. BONDS PAYABLE

On June 1, 2007, the Organization entered into a loan agreement with the New Jersey Economic Development Authority (the “Authority”) whereby the Authority agreed to loan to the Organization the proceeds from its Revenue Bonds (Newark Downtown District Management Corporation) Series 2007 (“Series 2007 Bonds”) in the amount of \$10,000,000. The proceeds were used to finance the Organization’s district-wide streetscape improvements, including decorative lighting, corner treatments, street signs, trees and pits, plantings and planters in the City of Newark’s Special Improvement District and to fund a debt service reserve fund, renewal and replacement fund and to partially pay for the costs of issuance of the bonds. In 2012, the bond attorney approved these proceeds to be used for the CRC. The Series 2007 Bonds are special, limited obligations of the Authority and Commerce Bank (the “Trustee”) also dated June 1, 2007. Bond revenues include the pledged SID assessments, proceeds of the bonds deposited with the Trustee and investment income earned on funds held with the Trustee. The interest rate on the remaining bonds payable was 5.125% annually with an original maturing dates of June 15, 2027 and June 15, 2037.

The Series 2007 Bonds were evidenced by a note and contain provisions in respect to interest, principal, premium and redemption identical to the provisions of the Series 2007 Bonds contained in the Trust Indenture. The principal and interest on the 2007 Series Bonds are secured by the pledged assessments collected by the City of Newark on behalf of the Organization.

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In January 2019, the Organization refinanced the bonds payable by entering into a loan agreement with the New Jersey Economic Development Authority (the "Authority") whereby the Authority agreed to loan to the Organization the proceeds from its Revenue Bonds (Newark Downtown District Management Corporation) Series 2019 ("Series 2019 Bonds") in the amount of \$7,905,000. The proceeds, together with other available funds, were used by the Organization to refund the outstanding principal amount of the Series 2007 Bonds, finance various streetscape improvements including decorative street lighting in the Downtown Newark Special Improvement District, fund a debt service reserve fund as security for the payment of the principal and interest on the Series 2019 Bonds, and pay certain costs of issuance of the Series 2019 Bonds. The loan will bear interest from the date of issuance thereof, payable semi-annually on June 15 and December 15 of each year, commencing on June 15, 2019. Payments of the principal of, and interest on, the Series 2019 Bonds will be made by TD Bank, National Association, Cherry Hill, New Jersey, as new Trustee, to Cede & Co., as nominee for Depository Trust Company, New York, New York ("DTC"), for disbursement to DTC participants, and subsequent disbursements to the beneficial owners of the Series 2019 Bonds. The bonds payable have an annual interest rate of 5.125% (effective interest rate of 5.11%) and mature June 15, 2037. Retroactive effect has been given to the effect of the refinancing as of December 31, 2018 in the determination of current and long-term classifications.

Amounts outstanding at December 31 are as follows:

	<u>2022</u>	<u>2021</u>
New Jersey Economic Development Authority	\$ 6,805,000	\$ 7,100,000
Less: Unamortized debt issuance costs	<u>(133,783)</u>	<u>(138,081)</u>
Long-term debt, less unamortized debt issuance costs	6,671,217	6,961,919
Less: Unamortized original issue discount	<u>(31,047)</u>	<u>(33,194)</u>
	6,640,170	6,928,725
Less: Current portion	<u>(310,000)</u>	<u>(295,000)</u>
Long-term debt, less current portion and unamortized debt issuance costs and original issue discount	<u>\$ 6,330,170</u>	<u>\$ 6,633,725</u>

Debt issuance costs and original issue discount include consulting, legal and other costs incurred during 2007 associated with the bonds payable which are being amortized on the effective interest rate basis over the thirty-year life of the bonds payable.

As of December 31, 2022, future principal and interest payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 310,000	\$ 340,813	\$ 650,813
2024	325,000	324,541	649,541
2025	345,000	307,372	652,372
2026	360,000	289,306	649,306
2027	380,000	270,344	650,344
Thereafter	<u>5,085,000</u>	<u>1,412,322</u>	<u>6,497,322</u>
	<u>\$ 6,805,000</u>	<u>\$ 2,944,698</u>	<u>\$ 9,749,698</u>

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Amortization of the unamortized debt issuance costs over the next five years and thereafter is as follows:

2023	\$ 10,857
2024	10,857
2025	10,857
2026	10,857
2027	10,857
Thereafter	<u>79,498</u>
	<u>\$ 133,783</u>

Amortization of the unamortized original issue discount over the next five years and thereafter is as follows:

2023	\$ 2,147
2024	2,147
2025	2,147
2026	2,147
2027	2,147
Thereafter	<u>20,312</u>
	<u>\$ 31,047</u>

7. PAYCHECK PROTECTION PROGRAM LOAN

On April 23, 2020, the Organization issued an unsecured promissory note (the "PPP Loan") for \$163,500 through the Paycheck Protection Program ("PPP") established under the CARES Act and administered by the U.S. Small Business Administration ("SBA"). The PPP Loan is guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if the Organization was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within the defined 24-week period after the PPP Loan was disbursed ("Covered Period"), and otherwise satisfied PPP requirements. The PPP Loan was made through TD Bank, N.A. (the "Lender"), has a two-year term, bears interest at 1.00% per annum, and matures on April 23, 2022. On June 17, 2021, the Organization received full forgiveness of the PPP loan and recorded forgiveness of debt and accrued interest on the statement of activities and changes in net assets (deficit).

8. SBA ECONOMIC INJURY DISASTER LOAN ("EIDL")

On June 11, 2020, the Organization issued an unsecured promissory note (the "EIDL Loan") for \$150,000 through the Small Business Administration established under the Small Business Act and administered by the U.S. Small Business Administration ("SBA"). The EIDL Loan is collateralized by a secured interest in property owned by the Organization. The EIDL Loan was made through the SBA (the "Lender"), has a thirty-year term, bears interest at 2.75% per annum, and matures on July 2, 2051. Monthly principal and interest payments are deferred until twelve months after the date of the promissory note or July 2, 2021. The Organization repaid the entire EIDL Loan balance of \$150,000 on February 1, 2021.

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9. LEASE

In February 2015, the Organization entered into a twelve-year operating lease with Military Park Building LLC for its operation's space by renting Suite LL1 (lower level), Suite 105 (1st floor), and Suite 2100 (21st floor) in the same Military Park Building. The Organization moved its office space in October 2015 and its storage and ambassadors' space in December 2015. Total fixed rent amounts to \$177,500 per annum for the remainder of the lease. No security deposit is required by the landlord. The Organization has an option to renew and extend the term for an additional five years. The renewal option has not been included in the calculation of the lease liability, since it is not at least reasonably certain that it will be exercised, based on general uncertainties that come with the passage of time. Under the terms of the lease, the Organization receives a rent credit of \$9,000 per annum, is responsible for electricity costs of \$21,090 per annum, and is also responsible for its proportionate share of taxes and operating expenses for the property.

Because the rate implicit in the lease is generally not available, the Organization utilizes an estimated incremental borrowing rate as the discount rate.

The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liability as of December 31, 2022:

2023	\$ 189,590
2024	189,590
2025	189,590
2026	189,590
2027	<u>142,193</u>
	900,553
Less: Imputed interest	<u>(25,745)</u>
Lease liability at December 31, 2022	<u>\$ 874,808</u>

Lease expense for the years ended December 31, 2022 and 2021 was \$133,556 and \$128,587, respectively, and is included on the statements of activities and changes in net assets (deficit) under management and general expenses. In addition, included in lease expense for the years ended December 31, 2022 and 2021 are month to month leases and leases that are less than twelve months in duration which amount to \$121,277 and \$92,755, respectively.

The discount rate used in estimating the net present value of the operating lease as of December 31, 2022 is 1.25%.

For the year ended December 31, 2022, cash paid for amounts included in the measurement of lease liabilities includes operating cash flow from operating leases of \$189,590.

10. MURAL PROJECT

In September 2015, an agreement was entered into with the Newark Community Economic Development Corporation ("NCEDC") whereby the Organization would assume responsibility for the procurement and implementation of a project for the installation of several exterior murals to be painted within the boundary of the Newark Downtown District. The Organization has the responsibility to oversee the implementation and maintenance of the mural project. NCEDC shall pay for the costs of the mural project with one half paid to the Organization upon execution of the agreement and the final half paid upon completion of the unveiling of the project. The Organization incurred no expenses for the years ended December 31, 2022 and 2021.

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11. RETIREMENT PLAN

The Organization maintains a 401(k) defined contribution employee benefit plan. Under the plan, the Organization matches 4% of eligible compensation for qualified employees. The Organization's matching contributions to this plan for the years ended December 31, 2022 and 2021 amounted to \$22,876 and \$31,746, respectively.

12. NET ASSETS WITHOUT DONOR RESTRICTIONS

Board designated funds consist of the following:

	<u>2022</u>	<u>2021</u>
Board Designated Assessment Appeal Reserve	\$ 305,386	\$ 301,044
Board Designated Operating Reserve	<u>2,195,580</u>	<u>2,542,387</u>
	<u>\$ 2,500,966</u>	<u>\$ 2,843,431</u>

On February 24, 2021, the board established Assessment Appeal Reserve and Operating Reserve policies.

The purpose of the Assessment Appeal Reserve is to build and maintain an adequate level of net assets to meet the obligations that may arise when a stakeholder wins a tax, and therefore SID assessment, appeal. The creation of the reserve will protect the Organization from large and unforeseen expenses resulting from tax/SID appeals that would otherwise impact its operations, without such a reserve. The Organization intends for the reserve to be replenished within a reasonable period of time.

The purpose of the Operating Reserve for the Organization is to build and maintain an adequate level of net assets without donor restrictions to support the Organization's day-to-day operations in the event of financial shortfalls. The reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. Operating reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. The Organization intends for the Operating Reserve to be used and replenished within a reasonable period of time.

13. CONCENTRATIONS OF CREDIT RISK

The Organization has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of \$250,000. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Organization's financial condition, results of operations, and cash flows.

For each of the years ended December 31, 2022 and 2021, the Organization received almost 100% of its support revenue from the City of Newark through the SID assessments levied. The City of Newark assessed a 1% fee for the administration and processing of the SID assessments levied for the years ended December 31, 2022 and 2021 that amounted to \$50,712.

14. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring after the statement of financial position through the date of September 12, 2023, which is the date the financial statements were available to be issued. Based on this evaluation, the Organization has determined that no subsequent events have occurred which require adjustments to or disclosure in the financial statements.