NEWARK DOWNTOWN DISTRICT

NEWARK DOWNTOWN DISTRICT MANAGEMENT CORPORATION
Financial Statements
December 31, 2019 and 2018
With Independent Auditor's Report

withum
ADVISORY TAX AUDIT

Newark Downtown District Management Corporation
Table of Contents
December 31, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Newark Downtown District Management Corporation, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net deficit, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Organization'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 Organization'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.

withum

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Newark Downtown District Management Corporation as of December 31, 2019 and 2018, and the changes in its net deficit and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 11 of the financial statements, the Organization is currently evaluating the COVID-19 virus pandemic and its impact on the Organization's operations and has concluded that while it is reasonably possible the virus could have a negative effect on the Organization's financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements.

WithumSmith+Brown, PC

July 14, 2020

1. 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 deficit. For the years ended December 31, 2019 and 2018 the Organization had no net assets with donor restrictions.

Functional Expense

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and changes in net deficit. 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. Those costs include building utilities, insurance, maintenance and repairs, grounds maintenance, professional fees, property taxes, depreciation and were allocated based on a percentage of use calculation. The percentage of use is determined by a variety of cost allocation techniques such as square footage, time and effort.

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.

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, 2019 or 2018, 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, 2019 and 2018 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 restriction 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 restriction are reclassified to net assets without restrictions and reported in the statements of activities and changes in net 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.

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.

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:

Furniture and fixtures	7 years
Equipment	5 years
Building improvements	39 years
Streetscape project	15 years
Website	15 years
Leasehold improvements	**

** Shorter of estimated life or lease term.

Deferred Costs

As of December 31, 2019 and 2018, the Organization has recorded deferred costs of $451,107 and $-0-, respectively, which represents the cost and installation of light poles made by the Organization to the central business district of the City of Newark. An agreement is being drafted between the Organization and City of Newark which will facilitate the transfer of the light poles from the Organization to the City of Newark.

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, 2019 and 2018, 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, 2019 and 2018, the Organization had advertising costs of $12,667 and $48,268, respectively.

Reclassification

Certain amounts from the 2018 financial statements were reclassified to conform to the 2019 presentation. These changes had no effect on previously reported changes in net deficit.

Revenue Recognition

Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09 – *Revenue from Contracts with Customers* (Topic 606), as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Organization has adopted Topic 606 issued by the FASB, as amended as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

Tax assessments result from the Special Improvement District assessment levied by the City of Newark to property owners within the Business Improvement District. Pursuant to Topic 606, they are recognized over time in the period the assessment occurred, annually. Effective January 1, 2016, the Organization adopted a policy for assessment refunds requests whereby the Organization would refund 20% of the assessment overpayment based on successful tax appeal with the City of Newark, if the member requests it. This policy includes restrictions on time allowed to request assessment refund from the date of tax appeal. The Organization does not have any significant financing components as payments are received in accordance with the budget.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a modified retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Statement of Cash Flows

In 2019, the Organization adopted ASU 2016-18, *Restricted Cash*. ASU 2016-18 issued by the FASB requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

Recent Accounting Pronouncements Issued Not Yet Effective

Leases

In February 2016, the FASB issued ASU 2016-02 *Leases* (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the statements of financial position for all of the Organization’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2020. The Organization is currently evaluating the potential impact this pronouncement will have on its financial statements and related disclosures.

2. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2019 and 2018, the Organization’s liquidity recourses and financial assets available within one year for general expenditure, such as operating expenses were as follows:

	2019	2018
Financial assets		
Cash and cash equivalents	$ 3,474,300	$ 2,852,497
Service fee and other receivables	61,334	18,598
Financial assets and liquidity resources	$ 3,535,634	$ 2,871,095

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

3. ASSETS WHOSE USE IS LIMITED

In accordance with the provisions of the loan agreement, 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, 2019 and 2018. 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."

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

	2019	2018
Direct Wide Streetscape Project		
Revenue account	$ 20	$ 78
Principal account	66,481	188,414
Interest account	169	101,354
Construction fund - 2019 project account	264,819	-
Debt service reserve fund	675,180	653,323
Renewal and replacement fund	-	329,291
Costs of issuance fund	1,018	-
	$ 1,007,687	$ 1,272,460

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 and Series 2007 Bonds.

Renewal and replacement fund – An amount equal to the Renewal and Replacement Fund Minimum Requirement for the Series 2007 Bonds from monies contributed by the Organization.

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 as a reduction in the expenses of the Clean Team and Streetscape programs. Receivables for these services at December 31, 2019 and 2018 were $60,434 and $18,598, respectively, and are included in service fee and other receivables on the statements of financial position. Management believes all receivables are fully collectible and no valuation allowance is recorded at December 31, 2019 or 2018. Service fee revenue as of December 31, 2019 and 2018 was $20,139 and $17,475, respectively, and is included in other income, net in the statements of activities and changes in net deficit.

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"). Receivables for these services at each of the years ended December 31, 2019 and 2018 was $-0-. Revenue for these services at December 31, 2019 and 2018 were $2,280 and $48,009, respectively.

5. FURNITURE, EQUIPMENT AND CAPITAL IMPROVEMENTS

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

	2019	2018
Streetscape project	$ 5,527,344	$ 5,527,344
Leasehold improvements	231,855	231,853
Furniture and fixtures	64,793	64,793
Building improvements	2,300	2,300
Equipment	633,888	572,364
	6,460,180	6,398,654
Less: Accumulated depreciation	4,184,062	3,728,826
	$ 2,276,118	$ 2,669,828

Depreciation expense for the years ended December 31, 2019 and 2018 was $455,236 and $427,833, respectively, and is included in the statements of activities and changes in net deficit.

During 2018, the Organization wrote off web design costs of $187,650 and a kiosk of $60,000 as these items were not going to be placed into service.

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

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 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 Trustee (the "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 has an annual interest rate of 5.125% (effective interest rate of 5.11%) and matures 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:

	2019	2018
New Jersey Economic Development Authority	$ 7,645,000	$ 7,895,000
Less unamortized debt issuance costs	(145,395)	(200,380)
Long-term debt, less unamortized debt issuance costs	7,499,605	7,694,620
Less unamortized original issue discount	(37,489)	(39,633)
	7,462,116	7,654,987
Less current portion	(265,000)	(260,000)
Long-term debt, less current portion and unamortized debt issuance costs and original issue discount	$ 7,197,116	$ 7,394,987

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. Original issue premium, net of debt issuance costs of $384,298 incurred during 2019 were recorded in the period as other income.

As of December 31, 2019, future principal and interest payments are as follows:

	Principal	Interest	Total
2020	$ 265,000	$ 385,016	$ 650,016
2021	280,000	371,050	651,050
2022	295,000	356,316	651,316
2023	310,000	340,812	650,812
2024	325,000	324,541	649,541
Thereafter	6,170,000	2,279,344	8,449,344
	$ 7,645,000	$ 4,057,079	$ 11,702,079

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

2020	$ 10,857
2021	10,857
2022	10,857
2023	10,857
2024	10,857
Thereafter	91,110
	$ 145,395

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

2020	$ 2,147
2021	2,147
2022	2,147
2023	2,147
2024	2,147
Thereafter	26,754
	$ 37,489

7. COMMITMENTS AND CONTINGENCIES

Leases

In October 2015 the Organization entered into an operating lease agreement with Ameritechnology for office equipment. The lease calls for sixty monthly payments of $180 each plus taxes. This lease will renew on a month-to-month basis at the same monthly lease payment until the purchase option is exercised or equipment is returned. Lease expense for each of the years ended December 31, 2019 and 2018 was $2,160.

In February 2015 the Organization entered into a new 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 rent during the term of the lease amounts to approximately $168,000 for each of the first five years and approximately $178,000 for each of the remaining seven years. No security deposit is required by the landlord. The Organization shall have the option to renew and extend the term for an additional five years. Under the term of the lease, the Organization is also responsible for its proportionate share of taxes and operating expenses for the property. Rent expense for the years ended December 31, 2019 and 2018 was $118,405 and $116,504, respectively, and is included on the statements of activities and changes in net deficit under management and general expenses.

The Organization entered into a one year lease for undeveloped land to be used for storage beginning March 8, 2017 at a monthly rental amount of $2,000. The Organization extended this lease for three years beginning April 1, 2018 at a monthly rental amount of $2,060 increasing 3% annually.

The Organization entered into a three year lease for certain parking space at the Two Gateway Center building beginning May 1, 2017 at a monthly rental amount of $450.

Future minimum lease payments on all operating leases subsequent to December 31, 2019 are as follows:

2020	$ 202,290
2021	211,950
2022	212,020
2023	210,300
2024	209,700
Thereafter	629,100
	$ 1,675,360

8. 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, 2019 and 2018.

9. 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, 2019 and 2018 amounted to $17,696 and $14,863, respectively.

10. CONCENTRATIONS OF CREDIT RISK

During the years ended December 31, 2019 and 2018 the Organization maintained cash balances with a financial institution in excess of the $250,000 limit guaranteed by the Federal Deposit Insurance Corporation. In addition, cash equivalents include investments in U.S. Government and Agency Obligations which are not insured by the FDIC. As such, there are inherent concentrations of credit risk.

For each of the years ended December 31, 2019 and 2018 the Organization received 100% of its support revenue from the City of Newark through the SID assessments levied.

11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring after the statement of financial position through the date of July 14, 2020 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 other than the following:

During April 2020, the Organization received a loan from a financial institution authorized through the Paycheck Protection Program authorized by the Coronavirus Aid, Relief and Economic Security Act (“the CARES Act”) in the amount of approximately $163,500. The loan may be forgiven upon a review by the financial institution of the Organization’s use of the loan proceeds in accordance with the CARES Act. Such forgiveness has not yet been determined as of the date of these financial statements.

During June 2020, the Organization received an Economic Disaster Recovery Loan from the U.S. Small Business Administration in the amount of $150,000.

The Organization is currently evaluating the COVID-19 virus pandemic and its impact on the Organization’s operations and has concluded that while it is reasonably possible the virus could have a negative effect on the Organization’s financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements.