

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.**

**FINANCIAL STATEMENTS  
AND  
AUDITORS' REPORT**

**JUNE 30, 2018 AND 2017**

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.**

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## INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of  
Hudson Square District Management Association, Inc.

We have audited the accompanying financial statements of Hudson Square District Management Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hudson Square District Management Association, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Skody Scot & Company, CPAs, P.C.*

New York, NY  
December 5, 2018

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,881,306	\$ 3,115,906
Cash restricted for class F property fund	1,199,504	89,584
Contributions and other receivables	-	27
Prepaid expenses	8,990	7,688
Property and equipment, net	320,745	139,978
	\$ 4,410,545	\$ 3,353,183
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 663,497	\$ 843,198
Loan payable	3,580,000	2,240,000
Deferred class F property fund	1,199,504	89,535
Deferred rent	5,876	8,727
Total liabilities	5,448,877	3,181,460
Commitments and contingencies (see notes)		
Net Assets/(Deficit):		
Unrestricted	(1,038,332)	171,723
Temporarily restricted	-	-
Permanently restricted	-	-
Total net assets/(deficit)	(1,038,332)	171,723
Total liabilities and net assets/(deficit)	\$ 4,410,545	\$ 3,353,183

**See accompanying notes to the financial statements.**

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Support and Revenues:</b>		
Unrestricted:		
Assessment revenue	\$ 2,500,812	\$ 2,500,000
Program service income	19,532	6,250
Government grants	-	352,829
Interest income	16,822	12,789
Total support and revenues	2,537,166	2,871,868
<b>Expenses:</b>		
Program Expenses:		
Traffic and streetscape	547,634	437,674
Marketing and economic development	647,659	638,270
Public realm operations	640,433	556,008
Public realm improvements	1,516,510	1,961,825
Total program expenses	3,352,236	3,593,777
Management and general	394,985	364,980
Total expenses	3,747,221	3,958,757
Increase/(Decrease) In Net Assets/(Deficit):		
Unrestricted	(1,210,055)	(1,086,889)
Temporarily restricted	-	-
Permanently restricted	-	-
Increase/(decrease) in net assets/(deficit)	(1,210,055)	(1,086,889)
Net assets/(deficit), beginning of year	171,723	1,258,612
Net assets/(deficit), end of year	\$ (1,038,332)	\$ 171,723

See accompanying notes to the financial statements.

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ (1,210,055)	\$ (1,086,889)
Adjustments for non-cash items included in operating activities:		
Depreciation	31,327	20,206
Changes in assets and liabilities:		
Contributions and other receivables	27	30,134
Prepaid expenses	(1,302)	5,678
Accounts payable and accrued expenses	(179,701)	718,273
Deferred income	-	(352,829)
Deferred class F property fund	1,109,969	89,535
Deferred rent	(2,851)	86
Net cash provided/(used) by operating activities	<u>(252,586)</u>	<u>(575,806)</u>
Cash flows from investing activities:		
Maturity of certificates of deposit	-	150,851
Purchase of property and equipment	(212,094)	(6,363)
Net cash provided/(used) by investing activities	<u>(212,094)</u>	<u>144,488</u>
Cash flows from financing activities:		
Proceeds from loans	1,340,000	880,000
Net cash provided/(used) by financing activities	<u>1,340,000</u>	<u>880,000</u>
Net increase/(decrease) in cash and cash equivalents	875,320	448,682
Cash and cash equivalents at beginning of year	<u>3,205,490</u>	<u>2,756,808</u>
Cash and cash equivalents at end of year	<u>\$ 4,080,810</u>	<u>\$ 3,205,490</u>
Supplemental information:		
Interest paid	\$ 106,580	\$ 83,682

**See accompanying notes to the financial statements.**

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies

The Association

Hudson Square District Management Association, Inc. (Association), a not-for-profit organization, was incorporated in the State of New York on April 21, 2009. The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal, state or local income taxes has been recorded. The Association does not believe its financial statements contain any uncertain tax positions. The Association primarily receives its support from a real estate special assessment levied by The City of New York (City) on properties located in the Hudson Square Business Improvement District (BID). The BID's boundaries are approximately from West Houston Street to Canal Street, between 6<sup>th</sup> Avenue and Greenwich Street.

The Association's programs include the following: Traffic and Streetscape - undertaking a variety of efforts aimed at easing the significant traffic congestion in the district and establishing a lively, active and creative street life and neighborhood with the purpose of encouraging pedestrian traffic that will help attract high quality and diverse retail uses to the neighborhood, and maximize green infrastructure; Marketing and Economic Development - creating a comprehensive retail strategy and a strong image for the district, and retaining and developing prospective business; Public Realm Operations - providing ongoing services to improve pedestrian safety conditions and maintain all physical improvements that are implemented by the Association on public land; and Public Realm Improvements - implementing capital improvements on public land throughout the district with the purpose of improving the streetscape environment.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

In accordance with GAAP the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

The Association capitalizes certain property and equipment with estimated lives of three years or more. Property and equipment are stated at cost, less accumulated depreciation. Depreciation of furniture and equipment is computed by the straight-line method over estimated useful lives ranging from five to seven years. Expenditures for repairs and maintenance are charged as an expense, and major renewals and betterments are capitalized.

Cash and Cash Equivalents

For the purposes of the statements of financial position and the statements of cash flows, the Association considers as cash equivalents money market funds and all highly liquid resources, such as investments in certificates of deposit and treasury bills, with an original maturity of three months or less.

Revenue Recognition

The real estate assessment levied by the City is recorded by the Association when earned. The City remits these assessments to the Association in two installments. An allowance for doubtful accounts is not provided because all assessments are received in the current year. Assessment billing errors are recorded as a direct reduction of assessment revenue.

All contributions are considered available for the Association's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increases in the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Program service revenue relates to fees received in exchange for program services. Revenue is recognized when the program service is provided. Any revenue received which has not been earned is recorded as deferred income.

The Association received a grant from a governmental agency. In accordance with the grant provisions, the Association received funds in advance of anticipated expenditures. All advanced funds not expended are recorded as deferred income.

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (continued)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Association allocates salaries based on estimated time and other expenses are allocated based on usage. The Association classifies expenses, which are not directly related to a specific program, as Management and General expenses.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Checking and savings	\$3,685,997	\$2,421,724
Money market funds	<u>394,813</u>	<u>783,766</u>
	<u>\$4,080,810</u>	<u>\$3,205,490</u>

Note 3 - Property and Equipment

Property and equipment by major class consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 49,857	\$ 49,857
Furniture and fixtures	41,438	41,438
Plaza – Public fixtures	<u>415,319</u>	<u>203,225</u>
	506,614	294,520
Less: Accumulated depreciation	<u>( 185,869)</u>	<u>( 154,542)</u>
	<u>\$ 320,745</u>	<u>\$ 139,978</u>

The Association leases property from The Port Authority of New York and New Jersey for no charge under a lease which can be terminated by either party at any time with thirty days written notice. Certain improvements were made to this property by the Association. Upon termination or expiration of the lease, the Port Authority will reimburse the Association for the amortized value of the improvements made. The amortized value of the public plaza fixtures was \$317,049 and \$134,088 at June 30, 2018 and 2017, respectively.

In November 2016, the Association entered into an Art Loan Agreement with a board member to loan on a no-fee limited-term basis, a sculpture to the Association for temporary installation on the above leased property from the Port Authority. Throughout the term of this loan, the board member will provide and pay for arts insurance coverage. Additionally, the board member is responsible for all maintenance and transportation costs related to the art.

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Commitments

The Association leases office space under a five year noncancelable operating lease which expired on June 30, 2014. On June 11, 2014, the Association extended its lease agreement for its office space. The extension agreement which was effective on July 1, 2014, expires on June 30, 2019. Total rent and related expense charged to operations for the years ended June 30, 2018 and 2017 was \$112,527 and \$110,628, respectively. As of June 30, 2018, minimum aggregate annual rentals are as follows:

Year ended June 30, 2019	\$ 103,848
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Note 5 - Concentrations

The Association maintains its cash and cash equivalents accounts with major financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures bank deposits up to \$250,000 per financial institution. At times, the balances of the accounts may have exceeded the limits during the years ended June 30, 2018 and 2017.

Note 6 - Pension Plans

Effective September 1, 2010, the Association adopted a qualified cash or deferred compensation plan under section 403(b) of the Internal Revenue Code. Under the plan, employees may elect to defer up to twenty percent (20%) of their salary, subject to Internal Revenue Service limits. In addition, the plan allows for the Association to make discretionary contributions based on the participant's salary. Employees are eligible for discretionary contributions after 12 months of service to the Association. Association contributions to the plan amounted to \$27,485 and \$26,697 for 2018 and 2017, respectively.

Effective January 15, 2011, the Association also adopted a qualified cash or deferred compensation plan under section 457(b) of the Internal Revenue Code. The plan is only available to the President of the Association. Under the plan, the President of the Association may elect to defer up to one hundred percent (100%) of salary, subject to Internal Revenue Service limits. In addition, the plan allows for the Association to make discretionary contributions based on the participant's salary. The President of the Association is eligible for discretionary contribution after six months of service to the Association. Association contributions to the plan amounted to \$24,000 and \$17,500 for 2018 and 2017, respectively.

Note 7 - Related Party Transactions

During the years ended June 30, 2018 and 2017, the Organization had the following related party transactions with entities related to board members:

	<u>2018</u>	<u>2017</u>
Office rental	\$ 111,247	\$ 106,535

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

Note 8 - Government Grant and Subcontract

In December 2013, the Association signed a funding agreement (the Agreement), with the New York City Economic Development Corporation (EDC). The Agreement provides \$2,000,000 of funds for streetscape improvements, including the design and construction of the existing Greenstreet formerly known as Soho Square, and the purchase of City benches and way-finding signage. According to the Agreement, \$1,930,000 will be disbursed to the Association while \$70,000 will be retained by EDC for benches and signage which will be purchased directly by EDC. This Agreement constitutes governmental funding to the capital project.

The Agreement budgets \$1,000,000 for the Association to directly spend on design of the streetscape improvements. The remaining \$930,000 was paid to New York City Department of Parks and Recreation (DPR) to be used for construction which was agreed to in November 2013 under a separate subcontract between the Association and DPR.

During the years ended June 30, 2018 and 2017, the Association expended \$0 and \$352,829, respectively, of the government grant for design. The remaining design funds, if any, are recorded as deferred income on the statements of financial position. According to the subcontract between the Association and DPR, at the end of the design phase of the project, any unexpended funds which are earmarked for design will go to DPR for construction costs.

During the year ended June 30, 2016, the Association transferred the balance of these funds to DPR leaving the subcontractor payable balance to be \$0 as of June 30, 2016.

According to the Agreement, the streetscape improvements are estimated to cost a total of \$6,200,000. The New York City Department of Transportation will provide \$1,000,000 of additional government funds and the Association will expend up to \$3,200,000 of its own private funds.

Note 9 - Deferred Class F Property Fund

The Association receives funds which it is holding on behalf of the New York City Department of Parks and Recreation (DPR). The restricted funds plus any interest earned on the funds are required to be held in a separate bank account. These funds are to be paid out to a beneficiary to be determined at a later date. The Association may be a beneficiary of these funds or be part of a group of beneficiaries of these funds. As of June 30, 2018 and 2017, the Association is holding a total of \$1,199,504 and \$89,535, respectively, of these funds and is recorded as restricted cash and deferred class F property fund on the accompanying statements of financial position.

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

Note 10 - Loans Payable

In December 2015, the Association signed a term loan agreement (Bridge-Loan) with a major financial institution (Lender) allowing the Association to borrow up to \$11,000,000. As of June 30, 2018 the Association borrowed a total of \$3,580,000 in accordance with the provisions of this Bridge-Loan, leaving a principle balance of \$3,580,000 as of June 30, 2018. This amount is recorded as a Loan Payable in the accompanying statements of financial position. Interest accrues on the unpaid principal at a rate of 1.25% over the LIBOR rate and is due on a monthly basis. The Association also pays interest on the available unused credit amount at an annual rate of 0.45%, paid on a quarterly basis. The Bridge-Loan is secured by the future assessment income of the Association. The Bridge-Loan matures on December 15, 2018, at which point any unpaid principal loan balance is due back to the Lender. The provisions of the Bridge-Loan agreement allow the Association to request an extension for the maturity date. This request for extension may be denied or accepted at the sole and absolute discretion of the Lender. At the end of the Bridge-Loan term, the Association may either acquire a permanent loan or issue tax-exempt bonds to repay this Bridge-Loan.

Note 11 - Subsequent Events

Subsequent events were evaluated for potential additional disclosures and corrections through December 5, 2018, which is the date the financial statements were available to be issued.



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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To: The Board of Directors of  
Hudson Square District Management Association, Inc.

We have audited the financial statements of Hudson Square District Management Association, Inc. as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated December 5, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses and expenses and budget are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Skody Scot & Company, CPAs, PC*

New York, NY  
December 5, 2018

**HUDSON SQUARE DISTRICT MANAGEMENT ASSOCIATION, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
(Supplemental Financial Information)  
**YEARS ENDED JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR 2017**

	2 0 1 8							2 0 1 7
	<u>Program Expenses</u>				<u>Supporting</u>			
	Traffic & Streetscape	Marketing and Economic Development	Public Realm Operations	Public Realm Improvements	Total Program	Management and General	Total Expenses	Total Expenses
Salaries	\$ 245,491	\$ 269,701	\$ 166,124	\$ -	\$ 681,316	\$ 74,565	\$ 755,881	\$ 662,484
Payroll taxes and benefits	49,437	43,100	26,069	-	118,606	11,090	129,696	114,852
Outside contractors	131,043	226,768	438,489	135,414	931,714	38,320	970,034	1,500,576
Computer maintenance	-	-	-	-	-	12,412	12,412	12,776
Depreciation	-	-	-	-	-	31,327	31,327	20,206
Insurance	-	-	-	-	-	17,734	17,734	14,192
Interest	106,580	-	-	-	106,580	-	106,580	83,682
Office expenses	75	6,934	242	9	7,260	13,183	20,443	19,007
Postage and delivery	24	537	-	1	562	318	880	1,614
Professional fees	12,336	27,530	7,370	27,954	75,190	57,845	133,035	120,044
Printing and copying	158	24,283	-	419	24,860	6,556	31,416	32,027
Rent and utilities	-	-	-	-	-	112,527	112,527	110,628
Repairs and maintenance	-	-	-	-	-	5,639	5,639	5,291
Special events and projects	1,586	48,470	75	1,352,573	1,402,704	50	1,402,754	1,242,165
Supplies	78	-	2,064	-	2,142	2,769	4,911	7,751
Telephone	-	-	-	-	-	8,922	8,922	9,075
Travel, hotels and meetings	826	336	-	140	1,302	1,728	3,030	2,387
<b>Total expenses</b>	<b>\$ 547,634</b>	<b>\$ 647,659</b>	<b>\$ 640,433</b>	<b>\$ 1,516,510</b>	<b>\$3,352,236</b>	<b>\$ 394,985</b>	<b>\$3,747,221</b>	<b>\$3,958,757</b>

**HUDSON SQUARE DISTRICT  
MANAGEMENT ASSOCIATION, INC.  
SCHEDULE OF EXPENSES AND BUDGET  
(Supplemental Financial Information)  
YEAR ENDED JUNE 30, 2018**

	<u>Total Expenses</u>	<u>Operating Budget</u>
Salaries	\$ 755,881	\$ 748,000
Payroll taxes and benefits	129,696	147,000
Outside contractors	970,034	1,114,000
Computer maintenance	12,412	13,000
Depreciation	31,327	-
Insurance	17,734	15,000
Interest	106,580	120,000
Office expenses	20,443	23,000
Postage and delivery	880	4,000
Professional fees	133,035	121,000
Printing and copying	31,416	30,000
Rent and utilities	112,527	114,000
Repairs and maintenance	5,639	6,000
Special events and projects	1,402,754	7,520,000
Supplies	4,911	5,000
Telephone	8,922	8,000
Travel, hotels and meetings	3,030	3,000
	<u>\$ 3,747,221</u>	<u>\$ 9,991,000</u>