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April 16, 2021

Board of Directors
Hammond Development Corporation
5246 Hohman Ave.
Hammond, IN 46320

We have reviewed the audit report of Hammond Development Corporation which was opined upon by CliftonLarsonAllen LLP, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Hammond Development Corporation as of December 31, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, CliftonLarsonAllen LLP prepared the audit report in accordance with guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

HAMMOND DEVELOPMENT CORPORATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018



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**HAMMOND DEVELOPMENT CORPORATION
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YEARS ENDED DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hammond Development Corporation
Hammond, Indiana

We have audited the accompanying financial statements of Hammond Development Corporation (an Indiana corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, 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.

Auditors' 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 from material misstatement.

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

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

Board of Directors
Hammond Development Corporation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hammond Development Corporation as of December 31, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Schererville, Indiana
December 7, 2020

HAMMOND DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 482,771	\$ 648,885
HIC, HDC, and HUB Accounts Receivable	836	6,400
Prepaid Expenses	34,750	45,512
Current Business Builders Loans, Net of Allowance of \$235,462 and \$-0- in 2019 and 2018, Respectively	356,793	204,581
Total Current Assets	875,150	905,378
PROPERTY AND EQUIPMENT		
Office Equipment	52,216	51,613
Building Improvement	47,943	44,047
Downtown Development Rental Properties	1,686,493	1,689,893
Total Property and Equipment	1,786,652	1,785,553
Less: Accumulated Depreciation	(759,279)	(709,437)
Property and Equipment, Net	1,027,373	1,076,116
OTHER ASSETS		
Note Receivable - Lakeshore Chamber of Commerce, Net of Allowance of \$18,207 in 2019 and 2018	5,325	5,325
Business Builders Loans, Net of Allowance of \$2,750 and \$121,847 in 2019 and 2018, Respectively	133,256	518,895
Note Receivable - Indiana Building, LLC	72,862	47,029
Property Held-for-Resale	-	79,600
Investment in Indiana Building, LLC	658,309	694,263
Total Other Assets	869,752	1,345,112
Total Assets	\$ 2,772,275	\$ 3,326,606
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,254	\$ 13,202
Accrued Expenses	13,886	14,619
Current Portion of Notes Payable	476,730	104,063
Total Current Liabilities	491,870	131,884
NOTES PAYABLE, NET OF CURRENT PORTION		
	-	424,341
Total Liabilities	491,870	556,225
NET ASSETS		
Without Donor Restrictions	2,260,242	2,444,596
With Donor Restrictions	20,163	325,785
Total Net Assets	2,280,405	2,770,381
Total Liabilities and Net Assets	\$ 2,772,275	\$ 3,326,606

See accompanying Notes to Financial Statements.

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, GAINS, AND LOSSES			
Contributions and Sponsorships	\$ 36,781	\$ 892,724	\$ 929,505
Donated Rent	21,445	-	21,445
Hammond Innovation Center and HUB Rental Income	83,840	-	83,840
HDC Entertainment	-	217,436	217,436
Interest Income	41,233	6,575	47,808
Urban Enterprise Association Administration Fee	300,000	-	300,000
Miscellaneous Income	86,300	-	86,300
Pass-Through Loss from Indiana Building, LLC	(35,955)	-	(35,955)
Net Assets Released from Donor Restrictions	1,422,357	(1,422,357)	-
Total Support, Revenue, Gains, and Losses	1,956,001	(305,622)	1,650,379
EXPENSES			
Program Services:			
Downtown Development	90,830	-	90,830
Towle Theater	18,592	-	18,592
HUB of Innovation	226,092	-	226,092
HDC Entertainment	1,459,553	-	1,459,553
Management and General	345,288	-	345,288
Total Expenses	2,140,355	-	2,140,355
CHANGE IN NET ASSETS	(184,354)	(305,622)	(489,976)
Net Assets - Beginning of Year	2,444,596	325,785	2,770,381
NET ASSETS - END OF YEAR	\$ 2,260,242	\$ 20,163	\$ 2,280,405

See accompanying Notes to Financial Statements.

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT, REVENUE, GAINS, AND LOSSES			
Contributions and Sponsorships	\$ 35,594	\$ 800,000	\$ 835,594
Donated Rent	21,445	-	21,445
Hammond Innovation Center and HUB Rental Income	93,708	-	93,708
HDC Entertainment	-	429,960	429,960
Interest Income	41,359	4,002	45,361
Urban Enterprise Association Administration Fee	300,000	-	300,000
Miscellaneous Income	24,212	-	24,212
Pass-Through Loss from Indiana Building, LLC	(41,866)	-	(41,866)
Net Assets Released from Donor Restrictions	938,121	(938,121)	-
Total Support, Revenue, Gains, and Losses	1,412,573	295,841	1,708,414
EXPENSES			
Program Services:			
Downtown Development	87,764	-	87,764
Towle Theater	54,472	-	54,472
HUB of Innovation	116,896	-	116,896
HDC Entertainment	942,022	-	942,022
Management and General	218,619	-	218,619
Total Expenses	1,419,773	-	1,419,773
CHANGE IN NET ASSETS	(7,200)	295,841	288,641
Net Assets - Beginning of Year	2,451,796	29,944	2,481,740
NET ASSETS - END OF YEAR	\$ 2,444,596	\$ 325,785	\$ 2,770,381

See accompanying Notes to Financial Statements.

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services				Management and General	Total
	Downtown Development	Towle Theater	HUB of Innovation	HDC Entertainment		
Salaries and Wages	\$ -	\$ -	\$ 26,775	\$ 29,569	\$ 70,849	\$ 127,193
Payroll Taxes	-	-	2,401	2,652	6,308	11,361
Retirement Plan	-	-	634	700	1,666	3,000
Health insurance	-	-	5,531	6,108	14,528	26,167
Insurance	-	6,583	-	95,064	7,798	109,445
Contract Labor	-	-	9,898	-	9,600	19,498
Donated Rent	21,445	-	-	-	-	21,445
Occupancy	-	-	3,461	-	17,654	21,115
Legal Fees	12,131	314	248	858	9,843	23,394
Accounting and Audit	-	-	-	-	34,229	34,229
Marketing	-	-	128	41,997	1,893	44,018
Security	1,989	-	510	18,833	-	21,332
Artist and Agents	-	-	-	1,110,750	-	1,110,750
Dues and Subscriptions	-	-	-	-	1,182	1,182
Event, Meeting and Conferences	-	-	394	66,404	24	66,822
Production	-	-	-	73,244	-	73,244
Bad Debt	-	-	109,909	-	-	109,909
Utilities	20,850	-	25,672	-	2,613	49,135
Maintenance	5,732	11,345	13,641	-	9,467	40,185
Depreciation	-	-	-	-	53,241	53,241
Home Security Rebates	-	-	-	-	818	818
Refunds	-	-	-	12,658	-	12,658
Supplies	-	-	-	-	1,019	1,019
Office	957	-	15,045	261	8,382	24,645
Internet	2,500	-	11,845	-	5,178	19,523
Interest	10,464	-	-	-	-	10,464
Telephone	11,762	-	-	-	1,034	12,796
Travel and Entertainment	-	-	-	-	7,309	7,309
Grants	3,000	-	-	-	-	3,000
Donated Property	-	-	-	-	79,600	79,600
Miscellaneous	-	350	-	455	1,053	1,858
Total Expenses	\$ 90,830	\$ 18,592	\$ 226,092	\$ 1,459,553	\$ 345,288	\$ 2,140,355

See accompanying Notes to Financial Statements.

HAMMOND DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services				Management and General	Total
	Downtown Development	Towle Theater	HUB of Innovation	HDC Entertainment		
Salaries and Wages	\$ -	\$ -	\$ 19,125	\$ 20,511	\$ 70,710	\$ 110,346
Payroll Taxes	-	-	1,610	1,726	5,951	9,287
Retirement Plan	-	-	570	611	2,108	3,289
Health insurance	-	-	5,756	6,173	21,281	33,210
Insurance	-	5,895	-	33,397	11,659	50,951
Contract Labor	-	-	4,700	-	12,701	17,401
Donated Rent	21,445	-	-	-	-	21,445
Occupancy	252	-	4,717	-	15,167	20,136
Legal Fees	13,244	-	-	1,065	9,982	24,291
Consulting Fees	125	-	4,000	19,546	-	23,671
Accounting and Audit	-	-	-	-	24,406	24,406
Marketing	-	-	-	41,651	-	41,651
Security	-	-	150	59,424	-	59,574
Artist and Agents	-	-	-	638,861	-	638,861
Dues and Subscriptions	-	-	-	-	1,184	1,184
Event	-	-	1,106	26,653	411	28,170
Meetings and Conferences	-	-	-	241	821	1,062
Production	-	-	-	91,821	-	91,821
Bad Debt	175	-	4,888	-	-	5,063
Utilities	19,625	-	28,148	-	2,610	50,383
Maintenance	7,697	5,273	13,445	-	6,883	33,298
Depreciation	1,996	43,304	5,658	-	1,861	52,819
Home Security Rebates	-	-	-	-	1,600	1,600
Supplies	-	-	-	-	2,110	2,110
Office	686	-	12,659	167	10,023	23,535
Internet	-	-	10,143	-	6,560	16,703
Interest	10,319	-	25	-	30	10,374
Telephone	11,853	-	-	-	867	12,720
Travel and Entertainment	-	-	41	-	5,312	5,353
Grants	-	-	-	-	3,000	3,000
Miscellaneous	347	-	155	175	1,382	2,059
Total Expenses	\$ 87,764	\$ 54,472	\$ 116,896	\$ 942,022	\$ 218,619	\$ 1,419,773

See accompanying Notes to Financial Statements.

HAMMOND DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (489,976)	\$ 288,641
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	53,241	52,819
Gain on Sale of Property and Equipment	-	(706)
Provision for Bad Debts	109,909	5,063
Pass-Through Loss on Indiana Building, LLC Investment	35,955	41,866
Donated Property Held for Sale	79,600	-
Effects of Changes in Operating Assets and Liabilities:		
Prepaid Expenses and Other Assets	10,762	(41,258)
Accounts Receivable	5,564	(5,005)
Accounts Payable	(11,948)	(12,905)
Accrued Expenses and Other Liabilities	(733)	(5,166)
Net Cash Provided (Used) by Operating Activities	(207,626)	323,349
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(4,499)	(23,136)
Proceeds from Sale of Equipment	-	3,007
Funding of Business Builders Loans	(10,000)	(74,242)
Payments Received on Business Builders Loans	133,518	184,316
Note Receivable - Lakeshore Chamber of Commerce	(25,833)	18,041
Additional Investment in Indiana Building, LLC	-	(59,526)
Net Cash Provided by Investing Activities	93,186	48,460
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(51,674)	(90,235)
Net Cash Used by Financing Activities	(51,674)	(90,235)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(166,114)	281,574
Cash and Cash Equivalents - Beginning of Year	648,885	367,311
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 482,771	\$ 648,885
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 10,464	\$ 10,500

See accompanying Notes to Financial Statements.

**HAMMOND DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hammond Development Corporation (HDC), an Indiana nonprofit organization, was formed to provide broad based charitable support for the development and redevelopment of the city of Hammond, including the stimulation of historical renovation, general business development, increase in commerce and trade, and general stimulation of the revitalization of the city of Hammond.

Program Services and Activities

Business Builders Program

On July 1, 1997, HDC created its Business Builders program to support the city of Hammond's "Incubator Plan". The purpose of the Incubator Plan is to assist Hammond-based women and minority owned business enterprises. The program includes a revolving loan arrangement and educational programs and activities.

Downtown Hammond Rehab and Rental Properties

HDC expanded its small business Incubator Plan by acquiring abandoned and vacant buildings in the downtown Hammond area through grants from the city of Hammond and contributions from area businesses. HDC rehabilitated certain buildings to make useable business space available through rental agreements and outright sales to fledgling businesses that are not able to afford such space at current market prices, nor would the businesses be able to afford to renovate the abandoned spaces to make them business ready. One of HDC's main initiatives has been to attract new high-tech internet start-up firms to downtown Hammond to replace and supplement the rust belt industries that once and still dominate the local economy.

Hammond Innovation Center

On October 1, 2010, HDC took over the Hammond Innovation Center (HIC) from Purdue University Calumet to support the city of Hammond's main initiative of attracting new high-tech start-up firms to downtown Hammond. The program includes providing competitively priced office space including a built-in infrastructure of services as well as the necessary business resources to assist in the successful operation of start-up businesses.

Towle Theater

Towle Theater is a performing arts center located in downtown Hammond owned and operated by HDC. Since their establishment in 1981, both entities have assisted the city of Hammond in developing a flourishing, prosperous community in which business owners and residents can take pride.

The Towle Theater applied for and received their separate 501(c)(3) designation by the state of Indiana. The transfer of the remaining Theatre assets that were held by the HDC was completed in February 2017. Total costs incurred relating to the transition were \$10,329 for the year ending December 31, 2018. In addition, the HDC entered into a leasing arrangement to rent the building housing the theater to the Towle for \$1 annually. The lease term is from January 1, 2017 through December 31, 2020.

HAMMOND DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services and Activities (Continued)

The HUB of Innovation

The Hub of Innovation is an extension of the Hammond Innovation Center but is a new avenue for cultivating business and job creation through internship opportunities. This site focuses on introducing university interns to business tenants and contract partnerships.

HDC Entertainment

HDC manages certain visual and performing musical and entertainment acts at the Wolf Lake Pavilion in Hammond, IN. This program encourages tourism with the provision of free concert events. As events are held in outside venues, insurance is purchased to cover cancellation of events due to potential inclement weather conditions. During 2019, an event was cancelled under these conditions and HDC received \$75,781 in insurance proceeds included within miscellaneous income on the statement of activities.

Basis of Presentation

Financial statement presentation follows accounting principles generally accepted in the United States of America for nonprofit organizations. Accounting principles generally accepted in the United States of America require HDC to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions defined as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations not subject to donor (or certain grantor) restrictions. Those resources over which the board of directors (board) has discretionary control.

Net Assets With Donor Restrictions

Those resources subject to donor-imposed restrictions which will be satisfied by actions of HDC, the passage of time, or those resources subject to donor-imposed stipulations that they be maintained in perpetuity. When a donor or time restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as Net Assets Released from Donor Restrictions. As of December 31, 2019 and 2018, HDC has no net assets subject to perpetual donor restrictions.

Reclassifications

Certain reclassifications have been made to the December 31, 2018 financial statement amounts in order to conform to the December 31, 2019 presentation. These reclassifications have had no impact on the total assets, net assets, or changes in net assets previously reported.

HAMMOND DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Sponsorships

The Organization records unconditional contributions in accordance with the requirements of accounting principles generally accepted in the United States of America for nonprofit entities. The Organization recognizes revenue for contribution (and grants considered to be contributions) based upon the presence or absence of donor-imposed conditions. For those contributions absent of donor-imposed conditions, revenues are recognized at the time the Organization is notified of the contribution and that promise is verified, regardless of the timing of cash receipt. For contributions with donor-imposed conditions – that is, those with a measurable performance or other barrier and a right of return or release – revenues are recognized at the time the conditions are substantially met, regardless of the timing of cash receipt. When a donor restriction expires, that is, when a stipulated time restriction ends, or the purpose of the restriction is accomplished, net assets with restrictions are reclassified to net assets without restrictions and reported in the statements of activities as Net Assets Released from Restrictions.

Contributions of noncash assets are recorded at their estimated fair values at the date contributed. For the years ended December 31, 2019 and 2018, HDC recognized \$21,445 in donated rent on the statement of activities for both years. Donated rent expense of the same amount is reflected on the statements of functional expenses.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates. Certain account balances were estimated. Accordingly, actual results could differ from those estimates

Cash and Cash Equivalents

HDC considers all liquid investments, including amounts invested in money market instruments, with an original maturity of three months or less to be cash equivalents.

At times, HDC's cash balances may exceed federally insured limits; however, HDC has not experienced any losses in such accounts and limits its exposure to credit risk by maintaining its cash and cash equivalents in highly reputable financial institutions.

Income Tax Status

HDC is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is similarly classified by the state of Indiana. However, HDC would be liable for income taxes on any unrelated business income. For the years ended December 31, 2019 and 2018, HDC does not anticipate taxable income.

Property and Equipment

All acquisitions and improvements of \$1,000 or more of property and equipment are capitalized and stated at cost. Contributed property and equipment are stated at fair market value at the date contributed.

HAMMOND DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

HDC provides for depreciation using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years.

Impairment of Long-Lived Assets

HDC reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Real Estate Properties

Real estate properties, including rental properties, properties held for resale, and rehab properties in progress are carried at cost, including cost of improvements and amenities incurred subsequent to acquisition. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized.

Bad Debts

HDC maintains an allowance for doubtful accounts for estimated losses related to the Business Builders program.

The allowance is an amount that HDC believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While HDC uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

The allowance totaled \$238,212 and \$121,847 at December 31, 2019 and 2018, respectively.

Allowances on Notes Receivable

An allowance for uncollectible receivables is recorded by management if it is probable that receivables recorded at the financial statement date will not be collected and the uncollectible amount can be reasonably estimated.

The allowance on notes receivable totaled \$18,207 at both December 31, 2019 and 2018.

HAMMOND DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and benefits, which are allocated based on estimates of time and effort.

Adoption of New Accounting Standard

In June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of this standard had no impact on HDC's financial statements.

Pending Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts. Additionally, qualitative and quantitative disclosures are required regarding contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard was initially effective for the Organization for the year ending December 31, 2019. However, in June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*. The amendments in this update defer, for one year, the required effective date of Topic 606 for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Topic 606. As the Organization had not issued their financial statements as of the date of this ASU, they elected the deferral and will adopt the guidance for Topic 606 for the fiscal year ending December 31, 2020.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Organization's leasing activities. The amendments in the guidance are effective for the Organization for the year ending December 31, 2022. Early adoption is permitted.

HAMMOND DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 LIQUIDITY

As part of HDC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets available to meet cash needs for general expenditures and other commitments within one year include the following at June 30:

	2019	2018
Cash and Cash Equivalents	\$ 482,771	\$ 648,885
HIC, HDC, and HUB Accounts Receivable	836	6,400
Current Portion of Business Builders Loans	356,793	204,581
Less: Net Assets with Donor Restrictions	20,163	325,785
 Total Financial Assets Available to Meet Cash Needs for General Expenditures and Other Commitments Within One Year	 \$ 820,237	 \$ 534,081

NOTE 3 NOTE RECEIVABLE – LAKESHORE CHAMBER OF COMMERCE

HDC holds an unsecured note receivable from the Lakeshore Chamber of Commerce. The note bears no interest and is payable upon demand. The balance of the note was \$23,532 at December 31, 2019 and 2018. The unsecured note receivable is recorded net of estimated uncollectible amounts, determined based on historical experience and a consideration of past due amounts; accordingly, the HDC has an allowance of \$18,207 for the years ended December 31, 2019 and 2018.

NOTE 4 BUSINESS BUILDERS LOANS

HDC has established a revolving loan fund as part of the Business Builders program. Loans outstanding totaled \$728,261 at December 31, 2019. The installment loans are granted to minority and women business enterprises that qualify under the program. The loans bear interest between 1.5% and 4.5% and are payable in 60 or 120 monthly installments. The loans are secured by real estate and financing agreements.

On April 25, 2019, HDC signed a settlement and release agreement for an existing business builder's loan. The original agreement was signed on April 20, 2017 for \$450,000 and was secured by a mortgage. The balance outstanding relating to this business builder loan was \$358,671 at the date of signing. Terms of the settlement included paying the remaining balance at an annual interest rate of 7.5% with regular installments of \$5,590 and a final balloon payment on or before June 30, 2020. An extension was subsequently granted due to COVID-19, and the full amount was collected in September 2020. Terms of the updated settlement repayment have been included in the future maturities schedule as listed below.

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NOTE 4 BUSINESS BUILDERS LOANS (CONTINUED)

Future maturities of the loans are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 635,510
2021	92,372
2022	27,420
2023	16,701
Total Loan Payments Receivable	<u>772,003</u>
Less: Amount Representing Interest	43,742
Less: Allowance for Doubtful Accounts	238,212
Total	<u><u>\$ 490,049</u></u>

NOTE 5 UEA NOTES PAYABLE

HDC has promissory note payable agreements with Urban Enterprise Association of Hammond, Indiana (UEA), the proceeds from which have been used to fund certain Business Builder loans.

On August 9, 2016, HDC executed a promissory note agreement with UEA for \$250,000 at an interest rate of 1.5% per annum. The agreement called for monthly principal and interest payments of \$4,327 beginning September 2016 through August 2021. During 2020, the borrower for the related business builder loan filed for bankruptcy and HDC is currently pursuing litigation to collect. HDC's amount outstanding with UEA under this loan agreement was \$143,963 and \$152,243, at December 31, 2019 and 2018, respectively.

On April 20, 2017, HDC executed a promissory note agreement with UEA for \$450,000 at an interest rate of 2% per annum. The agreement called for monthly principal and interest payments of \$5,076 beginning June 2017 through May 2025. In April of 2019, HDC signed a settlement and release agreement with the borrower for the related business builder loan and the loan balance was collected in full during 2020. See Note 4. HDC subsequently paid the remaining balance due under its loan agreement with UEA in October 2020. HDC's amount outstanding with UEA under this loan agreement was \$332,767 and \$376,161, at December 31, 2019 and 2018, respectively.

Amounts outstanding under both note agreements with UEA have been classified as current liabilities as of December 31, 2019.

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NOTE 6 INVESTMENT IN INDIANA BUILDING, LLC

HDC's 50% interest is accounted for using the equity method of accounting under which HDC's share of the net income (or net loss) of Indiana Building, LLC (the LLC) is recognized in HDC's Statement of Activities and added to (or subtracted from) the investment account. During the years ended December 31, 2019 and 2018, HDC contributed an additional \$-0- and \$59,526, respectively, to the LLC. The intent of the equity contributions was to create equity balances more parallel to each entity's ownership interest. The transactions did not change HDC's 50% interest in the investment. At December 31, 2019, the investment had a carrying value of \$658,309 and note payable to the HDC of \$72,862 including \$7,029 of advanced rent. At December 31, 2018, the investment had a carrying value of \$694,263 and note payable to the HDC of \$47,029 including \$22,029 of advanced rent.

Condensed financial information on a cash basis for the LLC as of and for the years ended December 31 is as follows:

	2019	2018
Current Assets	\$ 57,143	\$ 40,602
Other Assets	2,685	2,685
Property and Equipment	907,949	945,717
Current Liabilities	65,182	65,363
Long-Term Liabilities	75,862	25,000
Members' Capital	<u>\$ 826,733</u>	<u>\$ 898,642</u>
Rental and Other Income	\$ 85,746	\$ 112,165
Operating Expenses	<u>157,655</u>	<u>195,898</u>
Net Loss	<u>\$ (71,909)</u>	<u>\$ (83,733)</u>

On July 2020, the LLC donated 5244-46 Hohman Avenue located in Hammond, Indiana, to an unrelated third party with the third party to assume existing lease agreements and pay all closing costs. A separate agreement was signed on this date between the third party and HDC providing for the HDC to manage all aspects of operating the property including acquiring tenants, negotiating leases, performing routine maintenance and facility repairs, etc.

Subsequent to the donation of property, the LLC is in the process of dissolving and settling existing obligations with the HDC and other party through December 31, 2020.

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NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2019 and 2018 were available for the following purposes or time periods:

	2019	2018
Subject to Expenditure for Specified Purpose:		
Commercial Kitchen and Equipment Purchases	\$ 1,834	\$ 4,532
HDC Entertainment Program	18,329	321,253
Total Net Assets With Donor Restrictions	\$ 20,163	\$ 325,785

NOTE 8 RETIREMENT ARRANGEMENT WITH STAFF EMPLOYEES

HDC offers employees the opportunity to participate in a SIMPLE IRA plan. HDC matches a portion of each employee's contribution. The expense to HDC under this arrangement was \$3,000 and \$3,289 for 2019 and 2018, respectively.

NOTE 9 SIGNIFICANT CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of information about certain significant estimates and current vulnerabilities due to certain concentrations.

In 2019, two customers represented approximately 76% of gross loan receivables. Furthermore, 99% of HDC's contribution and grant revenue originated from one donor.

In 2018, two customers represented approximately 70% of gross loan receivables. Furthermore, 98% of HDC's contribution and grant revenue originated from one donor.

NOTE 10 RELATED PARTY TRANSACTIONS

HDC provides administrative services to Urban Enterprise Association of Hammond, Indiana (UEA) which includes administering the daily functions of the program and activities of the UEA, and implementing UEA board policies. The amount received for the administrative services rendered in 2019 and 2018 was \$300,000, and is reflected as Urban Enterprise Association Administration Fee on the statements of activities. Additional disclosures are reflected in Note 5 for the note payable due to the UEA.

NOTE 11 CONTINGENCIES

HDC is involved in litigation concerning collection efforts in pursuit of a delinquent Business Builders' loan. Legal counsel has advised a judgment was awarded. However, because of uncertainty surrounding collection, the award will be recorded only as payments are received. During 2019 and 2018, no amounts were recorded for awarded judgments issued.

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NOTE 12 SUBSEQUENT EVENTS

HDC evaluated subsequent events through December 7, 2020, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2019, but prior to December 7, 2020, that provided additional evidence about conditions that existed at December 31, 2019, have been recognized in the financial statements for the year ended December 31, 2019. Events or transactions that provided evidence about conditions that did not exist at December 31, 2019, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2019.

Subsequent to year-end, a pandemic of the Corona Virus (COVID-19) was declared by the World Health Organization. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to HDC, COVID-19 may impact various parts of its 2020 operations and financial results, including the receipt of contributions and collections on outstanding receivables. Management believes HDC is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

On June 2020, HDC received a loan from a bank in the amount of \$34,000 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if HDC fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, HDC will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in October 2020, principal and interest payments will be required through the maturity date in April 2022.

On July 2020, HDC received a property tax exemption for the Towle Theater building. No amounts for taxes had been accrued as of December 31, 2019 or 2018 resulting in no effect on the financial statements.

