

**LLOYD COMMUNITY
DEVELOPMENT CORPORATION**

(a component unit of the Town of Lloyd)

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

LLOYD COMMUNITY DEVELOPMENT CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Lloyd Community Development Corporation
Highland, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Lloyd Community Development Corporation (LCDC) (a nonprofit organization), which is a component unit of the Town of Lloyd, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the LCDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

LCDC's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lloyd Community Development Corporation as of December 31, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial

statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020 on our consideration of the Lloyd Community Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lloyd Community Development Corporation's internal control over financial reporting and compliance.

The logo for UHY LLP is written in a stylized, cursive script. The letters 'UHY' are larger and more prominent, with 'LLP' in a smaller font size to the right.

Kingston, NY
December 21, 2020

LLOYD COMMUNITY DEVELOPMENT CORPORATION
 (A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF NET POSITION
 As of December 31, 2019

ASSETS

CURRENT ASSETS

Cash	\$ 381,251
Notes receivable, current portion	<u>61,702</u>
Total current assets	<u>442,953</u>

OTHER ASSETS

Notes receivable, less current, net of an allowance of \$13,222	<u>174,890</u>
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Total other assets	<u>174,890</u>
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TOTAL ASSETS	<u>617,843</u>
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DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>
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LIABILITIES	<u>-</u>
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DEFERRED INFLOWS OF RESOURCES	<u>-</u>
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NET POSITION

Unrestricted	<u>617,843</u>
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NET POSITION	<u>\$ 617,843</u>
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LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2019

OPERATING REVENUES	
Interest income - loans	\$ 13,232
Total operating revenues	<u>13,232</u>
OPERATING EXPENSES	
Professional fees	3,100
Provision for loan losses	<u>13,222</u>
Total operating expenses	<u>16,322</u>
OPERATING LOSS	(3,090)
NON-OPERATING REVENUES	
Interest income	<u>3,153</u>
CHANGE IN NET POSITION	63
NET POSITION, BEGINNING OF YEAR	<u>617,780</u>
NET POSITION, END OF YEAR	<u>\$ 617,843</u>

See independent auditor's report and notes to the financial statements.

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from lending activities	\$ 87,981
Payments to vendors	<u>(3,100)</u>
Net cash provided by operating activities	<u>84,881</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on cash investments held by Town	<u>3,152</u>
Net cash provided by investing activities	<u>3,152</u>

NET INCREASE IN CASH 88,033

CASH - BEGINNING OF YEAR 293,218

CASH - END OF YEAR \$ 381,251

Reconciliation of operating income to net cash provided

by operating activities:

Operating loss	\$ (3,090)
Changes in assets and liabilities:	
Provision from loan losses	13,222
Notes receivable	<u>74,749</u>

Net cash provided by operating activities \$ 84,881

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended DECEMBER 31, 2019

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Lloyd Community Development Corporation (LCDC) was organized in 1996 under Not-For-Profit Corporation Law and is operated exclusively for the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, promoting instruction or training of individuals to improve or develop their capabilities for such jobs, aiding in attracting new business and industry, or by encouraging the development of, or retention of, business and industry within the Town of Lloyd.

The Organization is a taxable corporation with the intent of filing for exempt status exempt from Federal income tax as an Organization described in Sec. 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting and Financial Reporting

For purposes of applying accounting and financial reporting standards, LCDC is considered a governmental entity and a component unit of the Town of Lloyd since all the board members are appointed by the Town Board.

As such, LCDC has implemented the requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*.

- The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.
- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing lending services.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts. Interest income on loans is recognized using the accrual method. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, the estimated value of underlying collateral, and current economic conditions. Loans receivable are charged against the allowance account when they are deemed uncollectible. As of December 31, 2019 \$13,222 for allowance for doubtful accounts was deemed necessary.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash in bank, both interest-bearing and non-interest bearing accounts. For the purposes of the statement of cash flows, cash and cash equivalents consist of demand deposits with maturities of three months or less.

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended DECEMBER 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit and Market Risk

Financial instruments that potentially expose LCDC to concentrations of credit and market risk consist primarily of cash and cash equivalents and loans receivable. Cash and cash equivalents are maintained at Federal Deposit Insurance Corporation (FDIC) insured financial institutions and credit exposure is limited to any one institution. To the extent FDIC insurance is not sufficient, LCDC requires its bank to maintain pledged collateral.

Concentrations of credit risk with respect to notes receivables are limited due to the diverse industry backgrounds of its borrowers. Furthermore, management feels its borrower approval processes and regular review of provisions for loan losses, adequately provides for any material credit risks. Generally, sufficient collateral or a personal guarantee is obtained for all loans at the time of disbursement. Collateral is generally in the form of a mortgage on real property or a chattel lien on equipment title.

Loans and Allowance for Loan Losses

Loans are stated at their recorded investment, which is the amount of unpaid principal, reduced by an allowance for loan losses. Interest is calculated by using the simple interest method. Interest rates on loans range from 2.75% to 4.30%.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the Statement of Net Position date. To determine the total allowance for loan losses, management estimates the reserves needed for each loan outstanding.

To determine the balance of the allowance account, loans are evaluated case by case and future losses are projected using historical experience adjusted for current economic and industry conditions. Management exercises significant judgment in determining the estimation method that fits the credit risk rating characteristics of each case. Management must use judgment in establishing additional input factors for estimating purposes. The assumptions used to determine the allowance are periodically reviewed by management to ensure that their theoretical foundation, assumptions, data integrity, computational processes, and reporting practices are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires management review and judgment and respond to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to, or release balances from, the allowance for loan losses.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the assumptions used to estimate incurred losses in these portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Interest Income on Loans

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in accordance with adopted policies, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

LLOYD COMMUNITY DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE TOWN OF LLOYD)
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended DECEMBER 31, 2019

NOTE 3 - CASH

Lloyd Community Development Corporation's (LCDC) cash accounts are maintained at a financial institution located in Ulster County. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 each for interest and non-interest-bearing accounts. Deposits at year-end were entirely covered by federal depository insurance.

NOTE 4 - LOAN PROGRAMS

The Organization grants loans to businesses through the Town of Lloyd Revolving Loan Fund with the assistance of a local banking institution. The primary objective of the loan program is to enhance job retention and creation in the Town of Lloyd. Interest rates vary but currently range from 2.75-4.30%. Loans are generally secured by liens on real property and security interests in other business assets. Activity is summarized as follows:

	Balance 12/31/18	Loans Granted	Loan Payments	Allowance for Doubtful Accounts	Balance 12/31/19
Summary of activity	\$ 324,563	\$ -	\$ (74,749)	\$ (13,222)	\$ 236,592

The principal portion of the loans is repayable as follows:

2020	\$ 61,702
2021	50,538
2022	30,835
2023	23,473
2024	15,553
2025 - 2028	<u>54,491</u>
	<u>\$ 236,592</u>

NOTE 5 – RELATED PARTIES

LCDC does not have its own employees and recognizes no payroll expenses. The Town of Lloyd's finance department has assumed the accounting responsibilities. Donated services have not been reflected in these financial statements.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 21, 2020, which is the date the financial statements were available to be issued. In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's effect on the Organization's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Organization's finances. However, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Organization's activities, results of operations, financial condition and cash flow.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Lloyd Community Development Corporation
Highland, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Lloyd Community Development Corporation (a nonprofit organization), which comprise the statement of net position as of December 31, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lloyd Community Development Corporation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lloyd Community Development Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Lloyd Community Development Corporation’s internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness (2019-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lloyd Community Development Corporation’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002.

Lloyd Community Development Corporation's Response to Findings

The Lloyd Community Development Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

Kingston, NY
December 21, 2020

LLOYD COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

	<u>Response</u>
Financial Statements	
Type of auditors’ report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not material weaknesses?	No
Noncompliance material to the financial statements noted?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001: PAAA COMPLIANCE

Criteria – Per the Public Authority Accountability Act (PAAA) of 2005, the Lloyd Community Development Corporation (LCDC) is considered a “local authority” and must comply with the requirements of this act.

Condition – LCDC has improved its compliance with the PAAA including the approval of many new policies in 2017; however, there are still several requirements of the Act that have not been implemented.

Effect –LCDC is still not fully in compliance with the Act.

Cause – There has been much discussion since the passage of this legislation whether the Act actually applied to local development corporations in general. In addition, LCDC had been trying to get an exemption from the requirements due to the extremely limited amount of activity that actually takes place in the entity. The LCDC has been informed by the NYS Authorities Budget Office (ABO) that the Organization must meet the requirements of the Act as there are no exemptions.

Recommendation – LCDC must continue to implement the requirements of the Act including the following: Public access to meeting information including agendas, recent financial reports, and filing of the annual budget with the ABO 60 days before the start of the year.

Management’s Response – The board of the LCDC took additional steps during 2017 and 2018 to become more compliant with the Act. State-approved training is now monitored and scheduled for board members. Some LCDC information is posted on the Town’s website; however, additional information will be posted to enhance the LCDC’s transparency. Finally, we will review the remaining policies and procedures and document those that are appropriate for the LCDC and note those that are not applicable due to our limited activity. The intention of the board is to be in compliance with the Act by December 31, 2021.

2019-002: TAX COMPLIANCE

Criteria – Corporations must file Federal and State income tax returns even if incorporated as Not-For-Profit entities. Not-For-Profit corporations may file Exempt Organization returns if an application for recognition of exemption has been approved by IRS.

Condition – The Lloyd Community Development Corporation (LCDC) has not filed any tax returns since it was incorporated in 1996. In addition, an application for exemption has never been filed.

Effect – The LCDC is not in compliance with the income tax laws of the United States and the State of New York.

LLOYD COMMUNITY DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2019

Cause – The responsibility for the LCDC has gone through many different hands including the Ulster County Development Corporation at one time. Currently the LCDC activity is treated as a fund of the Town of Lloyd; therefore, it would appear that it is not subject to taxation. However, per review of all available documentation, the LCDC is in fact the entity that is issuing loans and collecting the related interest income. Therefore, it should be preparing tax returns and paying income taxes.

Recommendation – We encourage the LCDC to file the application as soon as possible to help get in compliance with taxing authorities.

Management's Response – The application for exemption is almost complete and will be submitted as soon as possible. Due to the board's misunderstanding regarding the exact status of the Organization and its activities, the LCDC will seek a settlement with taxing authorities to try to avoid any back taxes and penalties that may be levied.

2019-003: OVERSIGHT OF COMPLIANCE REQUIREMENTS

Criteria – The LCDC is responsible for compliance requirements with multiple government entities including the Internal Revenue Service and NYS ABO.

Condition – The Lloyd Community Development Corporation (LCDC) does not have a process to identify and ensure compliance with regulatory authorities.

Effect – The LCDC is not in compliance with regulatory authorities as documented in finding 2019-001 and 2019-002.

Cause – The responsibility for the LCDC has gone through many different hands including the Ulster County Development Corporation at one time. Currently the LCDC activity is treated as a fund of the Town of Lloyd. The Town has not made the necessary steps to ensure oversight of the LCDC

Recommendation – We encourage the LCDC take steps to ensure compliance with findings 2019-001 and 2019-002.

Management's Response – Management will continue to take steps to implement the recommendations for findings 2019-001 and 2019-002.

STATUS OF PRIOR FINDINGS

Findings 2019-001 and 2019-002 were noted during the audit of the 2018 financial statements.