DEVELOPMENT CHENANGO CORPORATION

FINANCIAL STATEMENTS

Year Ended December 31, 2018
With Comparative Totals for 2017 and 2016

DEVELOPMENT CHENANGO CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Development Chenango Corporation
Norwich, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Development Chenango Corporation (DCC), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows 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 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 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 DCC'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 DCC'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 DCC as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

DCC's 2017 and 2016 financial statements were audited by us, and in our report dated March 22, 2018, we expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the years ended December 31, 2017 and 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 in our consideration of DCC'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 DCC's internal control over financial reporting and compliance.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 27, 2019

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2018
With Comparative Totals for 2017 and 2016

ASSETS	2018	2017	2016
Current assets:			
Cash and cash equivalents	$ 280,872	$ 338,194	$ 208,812
Restricted cash	8,554	3,399	6,203
Accounts receivable	11,698	45,993	3,878
Current portion of loans receivable	147,920	108,184	126,708
Prepaid expenses	2,104	2,104	5,222
Total current assets	451,148	497,874	350,823
Non-current assets:			
Other assets:			
Investments in marketable securities	1,943,697	2,045,254	1,910,144
Loans receivable, net	560,092	536,503	628,291
Total other assets	2,503,789	2,581,757	2,538,435
Fixed assets:			
Office equipment	7,079	7,079	7,079
Leasehold improvements	116,072	116,072	116,072
Land and buildings, net	509,464	509,464	509,464
Less: Accumulated depreciation	(79,151)	(63,359)	(47,018)
Total fixed assets, net	553,464	569,256	585,597
Total non-current assets	3,057,253	3,151,013	3,124,032
Total assets	$ 3,508,401	$ 3,648,887	$ 3,474,855
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	$ 5,485	$ 33,387	$ 8,402
Accrued liabilities	10,053	10,188	13,589
Mortgage payable, current portion	10,338	10,235	4,234
Total current liabilities	25,876	53,810	26,225
Long-term liabilities:			
Mortgage payable, net of current portion	175,912	186,345	195,766
Total liabilities	201,788	240,155	221,991
Net assets:			
Without donor restrictions	3,306,613	3,408,732	3,252,864
Total net assets	3,306,613	3,408,732	3,252,864
Total liabilities and net assets	$ 3,508,401	$ 3,648,887	$ 3,474,855

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018
With Comparative Totals for 2017 and 2016

	Without Donor Restrictions		
Revenues, gains, and other support:	2018	2017	2016
Program revenues, support, and gains:			
Contributions from:			
Local governments	$ 188,000	$ 186,750	$ 181,750
Businesses and general public	1,500	1,500	1,500
Interest and fees earned on loan portfolio	22,470	21,022	19,360
Interest and dividends	43,829	36,187	29,265
Grants	-	46,225	4,885
Contract revenue	1,843	4,163	3,625
Net realized gain on investment transactions	21,338	11,323	14,138
Net unrealized gains (losses) on investment transactions	(155,347)	128,720	53,628
Rental income	18,000	20,450	21,500
Recovery of bad debt	8,746	-	-
Other	126	-	5
Total program revenues, support, and gains	150,505	456,340	329,656
Net assets released from restrictions	-	-	-
Total revenues, gains, and other support	150,505	456,340	329,656
Functional expenses:			
Program services:			
Economic development	109,589	148,256	235,625
Business grants	8,827	10,674	365,710
Loan portfolio	22,417	13,825	14,125
Total program services	140,833	172,755	615,460
Supporting services:			
Management and general	111,791	127,717	121,331
Total functional expenses	252,624	300,472	736,791
Change in net assets	(102,119)	155,868	(407,135)
Net assets - Beginning of year	3,408,732	3,252,864	3,659,999
NET ASSETS - END OF YEAR	$ 3,306,613	$ 3,408,732	$ 3,252,864

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018
With Comparative Totals for 2017 and 2016

	Program Services				Supporting Services	Totals		
	Economic Development	Business Grants	Loan Portfolio	Total Programs	Management and General	2018	2017	2016
Management fees	$ 46,700	$ 6,671	$ 6,671	$ 60,042	$ 73,386	$ 133,428	$ 166,405	$ 165,511
Special projects	410	-	-	410	-	410	367	5,892
Program recipient and administration	8,740	-	-	8,740	-	8,740	42,335	475,120
Professional fees	9,133	1,305	9,447	19,885	14,352	34,237	26,480	21,093
Investment fees	-	-	-	-	11,375	11,375	11,121	6,507
Advertising	9,457	-	-	9,457	-	9,457	3,762	9,223
Office expenses	1,895	271	271	2,437	2,977	5,414	2,339	5,356
Occupancy expenses	5,799	-	5,799	11,598	4,971	16,569	12,468	11,836
Interest expenses	1,939	-	-	1,939	-	1,939	2,010	712
Rental property expenses	9,920	-	-	9,920	-	9,920	9,733	12,558
Travel and training	1,044	580	-	1,624	696	2,320	4,780	4,793
Insurance	1,816	-	-	1,816	978	2,794	2,331	1,496
Bad debt	-	-	229	229	-	229	-	-
	96,853	8,827	22,417	128,097	108,735	236,832	284,131	720,097
Depreciation	12,736	-	-	12,736	3,056	15,792	16,341	16,694
Total functional expenses	$ 109,589	$ 8,827	$ 22,417	$ 140,833	$ 111,791	$ 252,624	$ 300,472	$ 736,791

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF CASH FLOWS

Year ended December 31, 2018
With comparative totals for 2017 and 2016

	2018	2017	2016
Cash flows from operating activities:			
Change in net assets	$ (102,119)	$ 155,868	$ (407,135)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation	15,792	16,341	16,694
Net realized gain on sale of investments	(21,338)	(11,323)	(14,138)
Net unrealized (gain) loss on investment transactions	155,347	(128,720)	(53,628)
Change in restricted cash	(5,155)	2,804	(2,373)
Accounts receivable	34,295	(42,115)	(1,509)
Prepaid expenses	-	3,118	(1,043)
Loans receivable	(63,325)	110,312	148,997
Accounts payable and accrued liabilities	(28,037)	21,584	(7,886)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(14,540)	127,869	(322,021)
Cash flows from investing activities:			
Proceeds from sales of investments	70,523	60,444	328,865
Purchases of investments	(102,975)	(55,511)	(709,121)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(32,452)	4,933	(380,256)
Cash flows from financing activities:			
Repayments of mortgage	(10,330)	(3,420)	-
NET CASH USED IN FINANCING ACTIVITIES	(10,330)	(3,420)	-
NET INCREASE (DECREASE) IN CASH	(57,322)	129,382	(702,277)
Cash - Beginning of year	338,194	208,812	911,089
CASH - END OF YEAR	$ 280,872	$ 338,194	$ 208,812

See accompanying notes.

NOTE 1 ORGANIZATION

The Development Chenango Corporation (DCC) is a non-profit organization whose primary purpose is to promote economic development in Chenango County. DCC operates programs that provide loans and economic assistance to businesses in Chenango County, that promote expansion and new business development. DCC contracts with other agencies in the county to provide certain economic development activities. The primary funding sources are government and state grants, return on investments and interest income earned on the repayment of revolving loans.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

DCC's policy is to prepare its financial statements on the accrual basis of accounting. Under this method, revenues are recognized as earned and expenses are recognized as they are incurred. Direct expenses are charged to DCC's programs. Administration expenses are allocated based on the relative direct costs of the program and management and general costs.

Basis of Presentation

The financial statements of DCC have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which requires DCC to report information regarding its financial position and activities according to the following net asset classifications:

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 DCC. These assets may be used at the discretion of DCC'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 DCC or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Investments

Investments consist of bond funds, equity funds, and money market funds recorded at market value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. They are stated at their fair value measurements using quoted prices in active markets for identical assets or liabilities in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by DCC. Many volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria was not met.

Cash and Cash Equivalents

For purposes of the statement of cash flows, DCC considers all unrestricted highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

DCC provides an allowance for uncollectible accounts based on management's estimates for financial statement purposes. Based on management's assessment of the credit history with contractors having outstanding balances and current relationships with them, DCC has concluded that realization losses on balances outstanding at year-end will be immaterial.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Loans Receivable

DCC accounts for loans receivable and the related interest income under the accrual method of accounting. Loans receivable are carried at unpaid principal balances, less an allowance for loan losses and net of any deferred loan fees. The allowance for loan losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Past due status is determined on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. DCC's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectable due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

When management believes, considering economic conditions, business conditions, and collection efforts, that the loans are impaired or collection of interest is doubtful, the interest accrual is removed. Any uncollected interest if previously accrued is charged off or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

Loan fees are recognized as income when received. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Advertising

DCC expenses advertising costs as they are incurred. Advertising expenses amounted to $9,457, $3,762 and $9,223 in 2018, 2017, and 2016, respectively.

Property, Equipment and Depreciation

DCC uses the accounting policy of capitalizing all fixed assets at cost in excess of $500 with an estimated useful life in excess of one year. Donated property and equipment are recorded at current fair value at the date of receipt. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Maintenance and repair costs are expensed as incurred; major renewals or betterments which extend the lives or increase the value of the assets are capitalized. Total depreciation amounted to $15,792 for 2018, $16,341, for 2017 and $16,694, for 2016. Depreciation on the rental building is netted against rental income. The remaining depreciation for operations amounted to $3,605 for 2018, $3,605 for 2017 and $3,957 for 2016.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Income Tax Status

DCC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, DCC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(3).

DCC reviews the components of revenues, gains, and other support and analyzes whether the position that DCC takes with regard to a particular item of income would meet the definition of an uncertain tax position under U.S. GAAP.

DCC files information returns in the U.S. Federal and New York State jurisdiction. The tax years that remain subject to examination by taxing authorities are generally the previous three years.

Functional Allocation of Expenses

DCC has allocated its expenses on a functional basis, in the statement of activities and the statement of functional expenses, among various program services. Expenses and support services that can be identified with a specific program are allocated directly according to their natural expenditure classification. Various other expenses are common to several programs are allocated based on following:

1. Economic Development – Direct expenditures made for the promotion of economic development in Chenango County.

2. Business Grants – Grants to businesses for the promotion of economic development in Chenango County and the related administrative expenditures.

3. Loan Portfolio – Direct expenditures made for the management of DCC administered loan portfolios.

4. Management and General – Expenditures associated with the overall operation of DCC. These expenditures are not directly part of the program services. They are indirect and necessary for DCC's existence.

Reclassifications

Certain reclassifications have been made to the 2017 and 2016 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Fixed Assets

It is DCC's policy to capitalize property and equipment over $500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation expense is calculated using the straight-line method over the useful lives of the assets as follows:

Building and improvements	40 years
Furniture and fixtures	3 – 12 years
Equipment	5 – 12 years

Comparative Totals

The amounts shown for the years ended December 31, 2017 and 2016 in the accompanying financial statements are included to provide a basis for comparison with 2018 and present summarized totals only. Accordingly, the 2017 and 2016 totals are not intended to present all information necessary for a fair presentation in conformity with generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016 – 14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. DCC has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Events Occurring After Reporting Date

Subsequent events were evaluated through March 27, 2019, which is the date the financial statements were available to be issued.

NOTE 3 AVAILABILITY AND LIQUIDITY

The following represents DCC's financial assets at December 31:

	2018	2017	2016
Financial assets at year end:			
Cash	$ 289,426	$ 341,593	$ 215,015
Accounts receivable	11,698	45,993	3,878
Loans receivable	708,012	644,687	754,999
Investments	1,943,697	2,045,254	1,910,144
	2,952,833	3,077,527	2,884,036
Less amounts not available to be used within one year:			
Cash restricted for escrow	(8,554)	(3,339)	(6,203)
Non current loans receivable	(560,092)	(536,503)	(628,291)
Net assets designated for future loans	(829,882)	(872,635)	(756,164)
	(1,398,528)	(1,412,477)	(1,390,658)
Financial assets available to meet general expenditures over the next twelve months	$ 1,554,305	$ 1,665,050	$ 1,493,378

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

NOTE 4 LOANS RECEIVABLE

DCC grants commercial loans primarily to individuals and businesses located in Chenango County, New York. Although DCC has diversified between large and small commercial properties and in different areas of the county, borrowers are heavily dependent on the employment and economic conditions within their zone. Loan activity for the years ended December 31 is as follows:

	2018	2017	2016
Business Assistance Loan Fund	$ 523,097	$ 501,698	$ 648,148
Dairy Revolving Loan Fund	185,085	151,678	181,547
Micro Enterprise Fund	27,869	27,869	45,550
Other	-	-	1,078
	736,051	681,245	876,323
Less: Allowance for estimated losses	(28,039)	(36,558)	(121,324)
Total	$ 708,012	$ 644,687	$ 754,999

Allowance for credit losses:	
Beginning balance	$ 36,558
Write-off of losses	8,519
Ending balance	$ 28,039

NOTE 4 LOANS RECEIVABLE (Cont'd.)

At December 31, 2018, the total unrecorded accrued interest on the impaired loans amounted to $10,030.

Each loan is secured by buildings and/or equipment offered by each business for collateral and certain loans are personally guaranteed by the business owners.

NOTE 5 CONDITIONAL FORGIVABLE LOANS

In 2013, $464,000 was provided to a Chenango County business under a government grant program. The program provided a loan for $114,000, which was repaid. The remaining $350,000 of those funds is a conditional forgivable loan receivable that is expected to be converted to a grant to the business. In 2016, the business met the economic performance targets specified in the grant agreement. The loan was forgiven and recorded as a grant expense in 2016.

NOTE 6 INVESTMENTS AND INVESTMENT RETURN

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

At December 31, 2018 investments in marketable securities are summarized as follows:

	Market	Cost	Unrealized Gain (Loss)
Money funds	$ 67,284	$ 67,284	$ -
Equity mutual funds	623,899	661,504	(37,605)
Real Asset funds	101,853	103,126	(1,273)
Fixed income mutual funds	1,150,661	1,174,196	(23,535)
Total	$ 1,943,697	$ 2,006,110	$ (62,413)

The unrealized gain (loss) is the change in market values from the original purchase price for securities that were not sold.

	2018	2017	2016
Investment, at cost	$ 2,006,110	$ 1,953,506	$1,947,116
Unrealized gains (losses)	(62,413)	91,748	(36,972)
Total	$ 1,943,697	$ 2,045,254	$1,910,144

NOTE 6 INVESTMENTS AND INVESTMENT RETURN (Cont'd.)

For the years ended December 31, investment return consisted of the following:

Capital gains:	2018	2017	2016
Net realized gains	$ 21,338	$ 11,323	$ 14,138
Net unrealized gains (losses)	(155,347)	128,720	53,628
Dividends and interest	43,829	36,187	29,265
Investment fees	(11,375)	(11,121)	(6,507)
Total	$ (101,555)	$ 165,109	$ 90,524

The investments are sold when cash needs develop or when good investment management dictates a change in securities held. The difference between the net proceeds from sales and cost represents the realized gain (loss) on the sale of securities. The unrealized gain (loss) for a year is the relative change in market values from the beginning to the end of the year for securities that were not sold.

NOTE 7 FIXED ASSETS

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. If these fixed assets are sold in the future, funds may have to be returned to the appropriate funding source. Activity related to fixed assets, as of December 31 consisted of the following:

	01/01/18 Balance	Additions	Deletions	12/31/18 Balance
Leasehold improvements	$ 116,072	$ -	$ -	$ 116,072
Office equipment	7,079	-	-	7,079
Land and buildings	509,464	-	-	509,464
Subtotal	632,615	-	-	632,615
Less: Accumulated depreciation	(63,359)	(15,792)	-	(79,151)
Total fixed assets, net	$ 569,256	$ (15,792)	$ -	$ 553,464

NOTE 8 NET ASSETS

At December 31, net assets without donor restrictions consisted of the following:

	2018	2017	2016
Designated:			
Fixed assets	$ 553,464	$ 569,256	$ 585,597
Business Assistance Loan Fund	522,926	465,141	567,856
Dairy Revolving Loan Fund	185,086	151,678	181,546
Micro Enterprises Fund	-	-	5,566
Loans for future years	829,882	872,635	756,164
Undesignated	1,215,255	1,350,022	1,156,135
Total	$ 3,306,613	$ 3,408,732	$ 3,252,864

At December 31, net assets with donor restrictions were released from their restrictions for the following purposes:

	2018	2017	2016
Community Devel. Block Grants	$ -	$ -	$ 350,000

NOTE 9 FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

Cash

DCC maintains substantially all of its cash accounts with one financial institution. The Federal Deposit Insurance Corporation insures total cash balances up to $250,000. At December 31, 2018, cash balances exceeded this by $39,336.

Accounts Receivable

Accounts receivable are carried at estimated net realizable values.

Loans Receivable

Loans receivable are principally with Chenango County businesses and guaranteed by those business owners. Realization of these items is dependent on various individual economic conditions. DCC performs credit evaluations of the financial condition of the businesses and individuals, and generally, requires collateral from them. Loans receivable are carried at estimated net realizable values.

NOTE 9 FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK (Cont'd.)

Investments

DCC's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments of DCC's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management believes that the diversification of its invested assets among the various classes should mitigate the impact of changes in class.

NOTE 10 MORTGAGE PAYABLE

On July 1, 2014, DCC obtained a $200,000 construction mortgage loan from a not-for-profit organization that administers funds from a governmental agency. The proceeds of the loan were used to finance the construction and renovation of 17-19 South Broad Street, which is the security for the loan. The loan is for 20 years at an interest rate of 1%. There are no payments required for the first 12 months of the loan. The first twelve payments were interest only, beginning August 2016. The regular payments began in August 2017 in the amount of $1,022. The final payment is in July 2035. Based on the market rates for similar loans, the fair value of the note approximates the carrying value.

	2018	2017	2016
Mortgage payable	$ 186,250	$ 196,580	$ 200,000
Less: Current portion	(10,338)	(10,235)	(4,234)
Total	$ 175,912	$ 186,345	$ 195,766

Mortgage payable maturity can be summarized as follows:

	Principal	Interest
2019	$ 10,338	$ 1,808
2020	10,442	1,704
2021	10,546	1,599
2022	10,652	1,493
2023	10,759	1,386
2024 – 2028	55,440	5,288
2029 – 2033	58,281	2,447
2034 – 2035	19,792	179
Total mortgage payable	$ 186,250	$ 15,904

NOTE 11 RENTAL ACTIVITY

DCC is currently renting the property at 17-19 South Broad Street. As of December 31, rental activity is as follows:

	2018	2017	2016
Rental income	$ 18,000	$ 20,450	$ 21,500
Less: Rental expenses	(22,656)	(22,469)	(26,007)
Total	$ (4,656)	$ (2,019)	$ (4,507)

NOTE 12 FAIR VALUE MEASUREMENTS

DCC utilizes U.S. GAAP which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. This principle also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of fair value hierarchy under U.S. GAAP are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. Level 1 includes debt and equity securities that are traded in an active exchange market, as well as U.S. treasury securities.

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly and fair value is determined through the use of models or other valuation methodologies. This category generally includes certain U.S. government and agency obligations and fixed income securities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

Fair values for securities are based on quoted market prices or dealer quotes, where available. When quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

NOTE 12 FAIR VALUE MEASUREMENTS (Cont'd.)

The following table sets forth DCC's investments that were accounted for at fair value at December 31, 2018, 2017 and 2016. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurements:

	Level 1	Level 2	Level 3	Total
2018				
Investments in marketable securities	$ 1,792,341	$ 151,356	$ -	$ 1,943,697
Loans receivable, net	-	-	708,012	708,012
Total	$ 1,792,341	$ 151,356	$ 708,012	$ 2,651,709
2017				
Investments in marketable securities	$ 1,945,970	$ 99,284	$ -	$ 2,045,254
Loans receivable, net	-	-	644,687	644,687
Total	$ 1,945,970	$ 99,284	$ 644,687	$ 2,689,941
2016				
Investments in marketable securities	$ 1,760,993	$ 149,151	$ -	$ 1,910,144
Loans receivable, net	-	-	754,999	754,999
Total	$ 1,760,993	$ 149,151	$ 754,999	$ 2,665,143

The table below presents information about fair value measurements that use significant unobservable inputs:

	2018	2017	2016
Loans receivable – Beginning of year	$ 644,687	$ 754,999	$ 553,996
Net loan receivable activity	63,325	(110,312)	201,003
Loans receivable, net – End of year	$ 708,012	$ 644,687	$ 754,999

NOTE 13 RELATED PARTY TRANSACTIONS

Several transactions have occurred between DCC and certain governing board members, a board member's business, or another business in which a board member is a director or employee. The transactions can be summarized as follows:

Certain governing board members of DCC are governing board members and/or employees of the financial institution that DCC maintains its cash accounts and investments. At December 31, 2018, 2017 and 2016, DCC paid investment fees to the financial institution in the amount of $11,375, $11,121 and $6,507, respectively.

NOTE 13 RELATED PARTY TRANSACTIONS (Cont'd.)

Certain governing board members of DCC are employees of Chenango County and/or members of the Chenango County Board of Supervisors. In 2018, 2017 and 2016, DCC received direct funding from Chenango County in the amount of $110,000, $108,750 and 108,750, respectively.

The president of Commerce Chenango, Inc. is also the Executive Director and a board member of DCC. In 2018, 2017 and 2016, DCC paid Commerce Chenango for management fees in the amount of $133,248, $163,287 and $165,511, respectively.

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INDEPENDENT AUDITORS' 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
Development Chenango Corporation
Norwich, New York

We have audited in accordance with the 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, the financial statements of Development Chenango Corporation (DCC), which comprise the statement of financial position as of and for the year ended December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended and the notes to the financial statements, and have issued our report thereon dated March 27, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DCC'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 DCC's internal control. Accordingly, we do not express an opinion on the effectiveness of DCC's internal control.

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 DCC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCC'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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

This report is intended solely for the information and use of Development Chenango Corporation audit committee, management, the State of New York, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 27, 2019