

DEVELOPMENT CHENANGO CORPORATION

FINANCIAL STATEMENTS

Year Ended December 31, 2019
With Comparative Totals for 2018 and 2017

DEVELOPMENT CHENANGO CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 – 17
INTERNAL CONTROL AND COMPLIANCE	
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 <i>Government Auditing Standards</i>	18 – 19

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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, 2019, 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, 2019, 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 2018 and 2017 financial statements were audited by us, and in our report dated March 27, 2019, 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, 2018 and 2017, 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 23, 2020 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.

Oneonta, New York
March 23, 2020

Mistert, Manzanero & Scott, LLP

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF FINANCIAL POSITION

December 31, 2019

With Comparative Totals for 2018 and 2017

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets:			
Cash and cash equivalents	\$ 438,403	\$ 280,872	\$ 338,194
Restricted cash	8,994	8,554	3,399
Accounts receivable	8,295	11,698	45,993
Current portion of loans receivable	145,323	147,920	108,184
Prepaid expenses	1,297	2,104	2,104
Total current assets	<u>602,312</u>	<u>451,148</u>	<u>497,874</u>
Non-current assets:			
Other assets:			
Investments in marketable securities	2,070,580	1,943,697	2,045,254
Loans receivable, net	386,453	560,092	536,503
Total other assets	<u>2,457,033</u>	<u>2,503,789</u>	<u>2,581,757</u>
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	(94,790)	(79,151)	(63,359)
Total fixed assets, net	<u>537,825</u>	<u>553,464</u>	<u>569,256</u>
Total non-current assets	<u>2,994,858</u>	<u>3,057,253</u>	<u>3,151,013</u>
Total assets	<u>\$ 3,597,170</u>	<u>\$ 3,508,401</u>	<u>\$ 3,648,887</u>
 <u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable	\$ 3,335	\$ 5,485	\$ 33,387
Accrued liabilities	10,494	10,053	10,188
Mortgage payable, current portion	10,442	10,338	10,235
Total current liabilities	<u>24,271</u>	<u>25,876</u>	<u>53,810</u>
Long-term liabilities:			
Mortgage payable, net of current portion	165,374	175,912	186,345
Total liabilities	<u>189,645</u>	<u>201,788</u>	<u>240,155</u>
Net assets:			
Without donor restrictions	<u>3,407,525</u>	<u>3,306,613</u>	<u>3,408,732</u>
Total net assets	<u>3,407,525</u>	<u>3,306,613</u>	<u>3,408,732</u>
Total liabilities and net assets	<u>\$ 3,597,170</u>	<u>\$ 3,508,401</u>	<u>\$ 3,648,887</u>

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019
With Comparative Totals for 2018 and 2017

	Without Donor Restrictions		
	2019	2018	2017
Revenues, gains, and other support:			
Program revenues, gains and support:			
Contributions from:			
Local governments	\$ 187,200	\$ 188,000	\$ 186,750
Businesses and general public	1,500	1,500	1,500
Interest and fees earned on loan portfolio	24,322	22,470	21,022
Interest and dividends	47,519	43,829	36,187
Grants	-	-	46,225
Contract revenue	-	1,843	4,163
Net realized gain on investment transactions	33,947	21,338	11,323
Net unrealized gains (loss) on investment transactions	156,854	(155,347)	128,720
Rental income	18,000	18,000	20,450
Recovery of bad debt	-	8,746	-
Other	-	126	-
Total program revenues, gains and support	<u>469,342</u>	<u>150,505</u>	<u>456,340</u>
Net assets released from restrictions	-	-	-
Total revenues, gains, and other support	<u>469,342</u>	<u>150,505</u>	<u>456,340</u>
Functional expenses:			
Program services:			
Economic development	223,199	109,589	148,256
Business grants	9,768	8,827	10,674
Loan portfolio	23,464	22,417	13,825
Total program services	<u>256,431</u>	<u>140,833</u>	<u>172,755</u>
Supporting services:			
Management and general	111,999	111,791	127,717
Total functional expenses	<u>368,430</u>	<u>252,624</u>	<u>300,472</u>
Change in net assets	100,912	(102,119)	155,868
Net assets - Beginning of year	<u>3,306,613</u>	<u>3,408,732</u>	<u>3,252,864</u>
NET ASSETS - END OF YEAR	<u>\$ 3,407,525</u>	<u>\$ 3,306,613</u>	<u>\$ 3,408,732</u>

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019
With Comparative Totals for 2018 and 2017

	Program Services			Total Programs	Supporting Services	Totals		
	Economic Development	Business Grants	Loan Portfolio		Management and General	2019	2018	2017
Management fees	\$ 50,660	\$ 7,236	\$ 7,236	\$ 65,132	\$ 79,607	\$ 144,739	\$ 133,428	\$ 166,405
Special projects	106,943	-	-	106,943	-	106,943	410	367
Program recipient and administration	8,439	-	-	8,439	-	8,439	8,740	42,335
Professional fees	9,717	1,359	10,042	21,118	6,400	27,518	34,237	26,480
Investment fees	-	-	-	-	11,437	11,437	11,375	11,121
Advertising	8,852	-	-	8,852	-	8,852	9,457	3,762
Office expenses	2,949	422	422	3,793	4,632	8,425	5,414	2,339
Occupancy expenses	5,764	-	5,764	11,528	4,944	16,472	16,569	12,468
Interest expenses	1,835	-	-	1,835	-	1,835	1,939	2,010
Rental property expenses	11,768	-	-	11,768	-	11,768	9,920	9,733
Travel and training	1,353	751	-	2,104	902	3,006	2,320	4,780
Insurance	2,182	-	-	2,182	1,175	3,357	2,794	2,331
Bad debt	-	-	-	-	-	-	229	-
	<u>210,462</u>	<u>9,768</u>	<u>23,464</u>	<u>243,694</u>	<u>109,097</u>	<u>352,791</u>	<u>236,832</u>	<u>284,131</u>
Depreciation	<u>12,737</u>	<u>-</u>	<u>-</u>	<u>12,737</u>	<u>2,902</u>	<u>15,639</u>	<u>15,792</u>	<u>16,341</u>
Total functional expenses	<u>\$ 223,199</u>	<u>\$ 9,768</u>	<u>\$ 23,464</u>	<u>\$ 256,431</u>	<u>\$ 111,999</u>	<u>\$ 368,430</u>	<u>\$ 252,624</u>	<u>\$ 300,472</u>

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019
With Comparative Totals for 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:			
Change in net assets	\$ 100,912	\$ (102,119)	\$ 155,868
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation	15,639	15,792	16,341
Net realized gain on sale of investments	(33,947)	(21,338)	(11,323)
Net unrealized (gain) loss on investment transactions	(156,854)	155,347	(128,720)
Change in restricted cash	(440)	(5,155)	2,804
Accounts receivable	3,403	34,295	(42,115)
Prepaid expenses	807	-	3,118
Loans receivable	176,236	(63,325)	110,312
Accounts payable and accrued liabilities	(1,709)	(28,037)	21,584
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>104,047</u>	<u>(14,540)</u>	<u>127,869</u>
Cash flows from investing activities:			
Proceeds from sales of investments	460,253	70,523	60,444
Purchases of investments	(396,335)	(102,975)	(55,511)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>63,918</u>	<u>(32,452)</u>	<u>4,933</u>
Cash flows from financing activities:			
Repayments of mortgage	(10,434)	(10,330)	(3,420)
NET CASH USED IN FINANCING ACTIVITIES	<u>(10,434)</u>	<u>(10,330)</u>	<u>(3,420)</u>
NET INCREASE (DECREASE) IN CASH	157,531	(57,322)	129,382
Cash - Beginning of year	<u>280,872</u>	<u>338,194</u>	<u>208,812</u>
CASH - END OF YEAR	<u>\$ 438,403</u>	<u>\$ 280,872</u>	<u>\$ 338,194</u>

See accompanying notes.

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

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, who in return 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, whereby the donor has stipulated the funds be maintained in perpetuity. There were no net assets with donor restrictions as of December 31, 2019, 2018 or 2017.

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.

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

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.

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

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 \$8,852, \$9,457 and \$3,762 in 2019, 2018, and 2017, 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 \$15,639 for 2019, \$15,792, for 2018 and \$16,341, for 2017.

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

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

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 2018 and 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

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

Comparative Totals

The amounts shown for the years ended December 31, 2018 and 2017 in the accompanying financial statements are included to provide a basis for comparison with 2019 and present summarized totals only. Accordingly, the 2018 and 2017 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.

Events Occurring After Reporting Date

Subsequent events were evaluated through March 23, 2020, 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Financial assets at year end:			
Cash	\$ 447,397	\$ 289,426	\$ 341,593
Accounts receivable	8,295	11,698	45,993
Loans receivable	531,776	708,012	644,687
Investments	<u>2,070,580</u>	<u>1,943,697</u>	<u>2,045,254</u>
	<u>3,058,048</u>	<u>2,952,833</u>	<u>3,077,527</u>
Less amounts not available to be used within one year:			
Cash restricted for escrow	(8,994)	(8,554)	(3,339)
Non current loans receivable	(386,453)	(560,092)	(536,503)
Net assets designated for future loans	<u>(1,034,928)</u>	<u>(829,882)</u>	<u>(872,635)</u>
	<u>(1,430,375)</u>	<u>(1,398,528)</u>	<u>(1,412,477)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,627,673</u>	<u>\$ 1,554,305</u>	<u>\$ 1,665,050</u>

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.

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Business Assistance Loan Fund	\$ 347,714	\$ 523,097	\$ 501,698
Dairy Revolving Loan Fund	184,232	185,085	151,678
Micro Enterprise Fund	<u>27,869</u>	<u>27,869</u>	<u>27,869</u>
	559,815	736,051	681,245
Less: Allowance for estimated losses	<u>(28,039)</u>	<u>(28,039)</u>	<u>(36,558)</u>
Total	<u>\$ 531,776</u>	<u>\$ 708,012</u>	<u>\$ 644,687</u>
Allowance for credit losses:			
Beginning balance	\$ 28,039		
Write-off of losses	<u>-</u>		
Ending balance	<u>\$ 28,039</u>		

At December 31, 2019, the total unrecorded accrued interest on the impaired loans amounted to \$11,145.

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 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, 2019 investments in marketable securities are summarized as follows:

	<u>Market</u>	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>
Money funds	\$ 66,860	\$ 66,860	\$ -
Equity mutual funds	655,151	590,571	64,580
Real Asset funds	100,392	87,863	12,529
Fixed income mutual funds	<u>1,248,177</u>	<u>1,230,845</u>	<u>17,332</u>
Total	<u>\$ 2,070,580</u>	<u>\$ 1,976,139</u>	<u>\$ 94,441</u>

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

NOTE 5 INVESTMENTS AND INVESTMENT RETURN (Cont'd.)

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investment, at cost	\$ 1,976,139	\$ 2,006,110	\$1,953,506
Unrealized gains (loss)	<u>94,441</u>	<u>(62,413)</u>	<u>91,748</u>
Total	<u>\$ 2,070,580</u>	<u>\$ 1,943,697</u>	<u>\$2,045,254</u>

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

Capital gains:	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net realized gains	\$ 33,947	\$ 21,338	\$ 11,323
Net unrealized gains (loss)	156,854	(155,347)	128,720
Dividends and interest	47,519	43,829	36,187
Investment fees	<u>(11,437)</u>	<u>(11,375)</u>	<u>(11,121)</u>
Total	<u>\$ 226,883</u>	<u>\$ (101,555)</u>	<u>\$ 165,109</u>

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 6 NET ASSETS

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Designated:			
Fixed assets	\$ 537,825	\$ 553,464	\$ 569,256
Business Assistance Loan Fund	347,544	522,926	465,141
Dairy Revolving Loan Fund	184,232	185,086	151,678
Loans for future years	1,034,928	829,882	872,635
Undesignated	<u>1,302,996</u>	<u>1,215,255</u>	<u>1,350,022</u>
Total	<u>\$ 3,407,525</u>	<u>\$ 3,306,613</u>	<u>\$ 3,408,732</u>

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

NOTE 7 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, 2019, cash balances exceeded this by \$188,190.

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.

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 8 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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Mortgage payable	\$ 175,816	\$ 186,250	\$ 196,580
Less: Current portion	<u>(10,442)</u>	<u>(10,338)</u>	<u>(10,235)</u>
Total	<u>\$ 165,374</u>	<u>\$ 175,912</u>	<u>\$ 186,345</u>

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

NOTE 8 MORTGAGE PAYABLE (Cont'd.)

Mortgage payable maturity can be summarized as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 10,442	\$ 1,704
2021	10,546	1,599
2022	10,652	1,493
2023	10,759	1,386
2024	10,867	1,278
2025 – 2029	55,997	4,831
2030 – 2034	58,866	1,861
2035	<u>7,687</u>	<u>23</u>
Total mortgage payable	<u>\$ 175,816</u>	<u>\$ 14,175</u>

NOTE 9 RENTAL ACTIVITY

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Rental income	\$ 18,000	\$ 18,000	\$ 20,450
Less: Rental expenses	<u>(24,504)</u>	<u>(22,656)</u>	<u>(22,469)</u>
Total	<u>\$ (6,504)</u>	<u>\$ (4,656)</u>	<u>\$ (2,019)</u>

NOTE 10 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.

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

NOTE 10 FAIR VALUE MEASUREMENTS (Cont'd.)

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.

The following table sets forth DCC's investments that were accounted for at fair value at December 31, 2019, 2018 and 2017. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurements:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2019</u>				
Investments in marketable securities	\$ 1,970,188	\$ 100,392	\$ -	\$ 2,070,580
Loans receivable, net	<u>-</u>	<u>-</u>	<u>531,776</u>	<u>531,776</u>
Total	<u>\$ 1,970,188</u>	<u>\$ 100,392</u>	<u>\$ 531,776</u>	<u>\$ 2,602,356</u>
<u>2018</u>				
Investments in marketable securities	\$ 1,792,341	\$ 151,356	\$ -	\$ 1,943,697
Loans receivable, net	<u>-</u>	<u>-</u>	<u>708,012</u>	<u>708,012</u>
Total	<u>\$ 1,792,341</u>	<u>\$ 151,356</u>	<u>\$ 708,012</u>	<u>\$ 2,651,709</u>
<u>2017</u>				
Investments in marketable securities	\$ 1,945,970	\$ 99,284	\$ -	\$ 2,045,254
Loans receivable, net	<u>-</u>	<u>-</u>	<u>644,687</u>	<u>644,687</u>
Total	<u>\$ 1,945,970</u>	<u>\$ 99,284</u>	<u>\$ 644,687</u>	<u>\$ 2,689,941</u>

DEVELOPMENT CHENANGO CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

NOTE 10 FAIR VALUE MEASUREMENTS (Cont'd.)

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Loans receivable – Beginning of year	\$ 708,012	\$ 644,687	\$ 754,999
Net loan receivable activity	<u>(176,236)</u>	<u>63,325</u>	<u>(110,312)</u>
Loans receivable, net – End of year	<u>\$ 531,776</u>	<u>\$ 708,012</u>	<u>\$ 644,687</u>

NOTE 12 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, 2019, 2018 and 2017, DCC paid investment fees to the financial institution in the amount of \$11,437, \$11,375 and \$11,121, respectively.

Certain governing board members of DCC are employees of Chenango County and/or members of the Chenango County Board of Supervisors. In 2019, 2018 and 2017, DCC received direct funding from Chenango County in the amount of \$112,200, \$110,000 and 108,750, respectively.

The president of Commerce Chenango, Inc. is also the Executive Director and a board member of DCC. In 2019, 2018 and 2017, DCC paid Commerce Chenango for management fees in the amount of \$144,739, \$133,248 and \$163,287, 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, 2019, 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 23, 2020.

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.

Oneonta, New York
March 23, 2020

A handwritten signature in black ink that reads "Mostert, Manzanero & Scott, LLP". The signature is written in a cursive style and is positioned to the right of the date and location text.