DEVELOPMENT CHENANGO CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2011, 2010 and 2009

Development Chenango Corporation
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Development Chenango Corporation as of December 31, 2011, 2010 and 2009, and the related statement of activities, and cash flows for the years then ended. These financial statements are the responsibility of management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Development Chenango Corporation as of December 31, 2011, 2010 and 2009, and the changes in its net assets and its cash flow for the years then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2012, on our consideration of Development Chenango 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Development Chenango Corporation taken as a whole. The accompanying schedules of functional expenses and Federal Awards referred to in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cwynar & Company CPAs, PLLC

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cwynar & Company

Norwich, New York
February 7, 2012

DEVELOPMENT CHENANGO CORPORATION
STATEMENT OF ACTIVITIES

For the years ended December 31,		2011	2010	2009
UNRESTRICTED NET ASSETS				
PROGRAM REVENUES, SUPPORT, AND GAINS				
Contributions	$	153,750	149,250	114,250
Interest earned on loan portfolio		20,931	27,876	28,538
Loan application fees earned		850	540	3,225
Grants		83,517	760,784	186,332
Contract revenue		29,250	54,750	66,420
Special projects		-	-	10,000
Interest and dividends		17,349	24,494	23,025
Gain on sale of fixed asset		-	-	14,550
Net realized gains (losses) on investment transactions		-	63	-
Net unrealized gains (losses) on investment transactions		11,217	(4,769)	(5,177)
Recovery of bad debts		-	31,792	-
Other		4,325	289	2,707
Total program revenues, support, and gains		321,189	1,045,069	443,870
Net assets released from donor restrictions		11,113	7,500	21,250
Total unrestricted revenues, gains, and other support		332,302	1,052,569	465,120
FUNCTIONAL EXPENSES				
PROGRAM SERVICES				
Economic development		79,589	92,346	133,202
Federal grant		65,759	740,084	-
Loan portfolio		74,833	45,102	20,312
Empire zone		-	34,750	71,727
Total program services		220,181	877,532	153,514
SUPPORTING SERVICES				
Management & general		122,809	94,870	129,706
Total functional expenses		342,990	1,007,152	354,947
Change in unrestricted net assets		(10,688)	45,417	110,173
Beginning of the year		2,984,229	2,938,812	2,828,639
End of the year	$	2,973,541	2,984,229	2,938,812

See independent auditors' report

See accompanying notes to the financial statements

For the years ended December 31,		2011	2010	2009
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	$	-	-	-
Grants		-	-	-
Contract revenue		-	-	-
Net assets released from donor restrictions		(11,113)	(7,500)	(21,250)
Change in temporarily restricted net assts		(11,113)	(7,500)	(21,250)
Beginning of the year		11,113	18,613	39,863
End of the year	$	-	11,113	18,613

See independent auditors' report

See accompanying notes to the financial statements

DEVELOPMENT CHENANGO CORPORATION
STATEMENT OF FINANCIAL POSITION

At December 31,		2011	2010	2009
ASSETS				
CURRENT ASSETS				
Cash and equivalents	$	256,013	204,011	199,366
Cash, restricted		-	24,860	24,829
Investments in repurchase agreements		-	408,338	222,951
Contract receivable		14,442	4,322	-
Promise to give		-	-	7,500
Prepaid expenses		469	316	712
Loans receivable, net		162,321	170,414	234,182
Total current assets		433,245	812,261	689,540
OTHER ASSETS				
Investments in marketable securities		1,872,332	1,394,253	1,390,525
Conditional forgivable receivable		340,000	340,000	340,000
Loans receivable, net		327,089	469,007	571,711
Total other assets		2,539,421	2,203,260	2,302,236
FIXED ASSETS				
Office equipment		8,086	8,086	8,086
Accumulated depreciation		(7,211)	(6,850)	(6,491)
Total net fixed assets		875	1,236	1,595
Total assets	$	2,973,541	3,016,757	2,993,371
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	$	-	4,695	338
Loan program funds payable		-	16,720	35,608
Total current liabilities		-	21,415	35,946
NET ASSETS				
Unrestricted		2,973,541	2,984,229	2,938,812
Temporarily restricted		-	11,113	18,613
Total net assets		2,973,541	2,995,342	2,957,425
Total liabilities and net assets	$	2,973,541	3,016,757	2,993,371

See independent auditors' report

See accompanying notes to the financial statements

DEVELOPMENT CHENANGO CORPORATION
STATEMENT OF CASH FLOWS

For the years ended December 31,		2011	2010	2009
OPERATING ACTIVITIES				
Change in net assets	$	(21,801)	37,917	88,923
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation		361	359	1,049
Bad Debts		39,845	11,949	20,312
Net realized (gain)loss on sale of assets		-	(63)	(14,550)
Net unrealized (gain)loss on investment transactions		(11,217)	4,769	5,177
Accounts receivable		(10,120)	(4,322)	18,237
Promise to give		-	7,500	50,000
Loans receivable		110,166	154,523	(139,081)
Loan program funds payable		(16,720)	(18,888)	17,352
Accounts payable		(4,695)	4,357	(1,561)
Prepaid expenses		(153)	396	(84)
Restricted cash		24,860	(31)	(17)
CASH FROM (USED FOR) OPERATING ACTIVITIES		110,526	198,466	45,757
INVESTING ACTIVITIES				
Proceeds from sales of investments		1,179,148	91,225	-
Proceeds from the sale of fixed assets		-	-	21,000
Purchases of investments		(1,646,010)	(99,659)	(12,897)
Purchase of office equipment		-	-	-
Net change in repurchase contract investment		408,338	(185,387)	53,312
CASH FROM (USED FOR) INVESTING ACTIVITIES		(58,524)	(193,821)	61,415
INCREASE (DECREASE) IN CASH DURING THE YEAR		52,002	4,645	107,172
Cash at the beginning of the year		204,011	199,366	92,194
Cash at the end of the year	$	256,013	204,011	199,366

See independent auditors' report

See accompanying notes to the financial statements

DEVELOPMENT CHENANGO CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1
Nature of Organization and Significant Accounting Policies

Nature of Organization

The Development Chenango Corporation is a nonprofit entity whose primary purpose is to promote economic development in Chenango County. The Corporation operates a program that provides loans to businesses in Chenango County to promote expansion and new business development. The Corporation operated the Empire Development Zone Program. The Corporation contracts with other agencies in the county to provide 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.

On November 3, 2008, the Chenango County Area Corporation and the Greater Norwich Local Development Corporation merged to form the Development Chenango Corporation. The Greater Norwich Local Development Corporation was a nonprofit entity whose primary purpose was to aid in the growth and dêvelopment of business concerns by encouraging the location of industrial, manufacturing and commercial capacity and the creation of new and improved job opportunities and retention of existing jobs in the greater Norwich area. The primary reason for the merger was to streamline the process of economic development in Chenango County. As of the date of merger, the Greater Norwich Local Development had total net assets of $144,145.

Summary of Significant Accounting Policies

Basis of Accounting

The Corporation'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 the Corporation's programs. Administration expenses are allocated based on the relative direct costs of the program and management and general costs.

Financial Statement Presentation

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

Contributions, Promises to Give, and Grants

Contributions, promises to give, and grants are recognized when the donor grantor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions, promises to give, and grants that are restricted by the donor grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor grantor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/ or nature of any donor restrictions.

The Corporation uses the allowance method to provide for uncollectible unconditional promises to give. Promises to give are reported at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with donors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Donated Materials and Services

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contribution of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided.

Cash and Cash Equivalents

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

Contract Receivables

Contract receivables represent the balance of the grant which has not been received. The Corporation accounts for contract receivables under the accrual method of accounting.

The Corporation 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, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Accounts and Other Receivables

The Corporation accounts for receivables under the accrual method of accounting. Accounts receivable are stated at the amount management expects to collect from outstanding balances. This estimate is based on historical losses. Past due status is based on how recently payments have been received. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for uncollectible accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts and a credit to accounts receivable. Management has determined that no allowance is needed.

Investments

The Corporation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices in active markets (all Level 1 measurements) in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. The Corporation initially records its real estate investments at the fair value as of the dates the investments are donated and thereafter carries such investments primarily at current appraised values (Level 2 measurements).

Fair Value Measurements

The Corporation uses a fair value hierarchy that prioritizes the "inputs" to valuation techniques used to measure fair value. The hierarchy consists of three broad "inputs" levels:

- Level 1 inputs - consists of unadjusted quoted prices in active markets for identical assets and have the highest priority.
- Level 2 inputs - consist of observable inputs other than quoted prices for similar assets in active or inactive markets.
- Level 3 inputs - consist of unobservable inputs that reflect internal judgments. For example the value may be determined by calculating the present value of the future cash flows expected to be received at a discounted interest rate. These have the lowest priority.

The Corporation uses appropriate valuation techniques based on available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Corporation only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

The Corporation values all contributions at fair value when promised. The Corporation only revalues debt and marketable securities at least as often as it presents financial statements. For contributions valued initially at fair value but not revalued, the Corporation treats the initial fair value as cost in subsequent financial statements.

Management of the Corporation estimates that the aggregate net fair value of financial instruments recognized (including receivable, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

Loans Receivable

The Corporation 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 based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Corporation's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible 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.

Loans are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. 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.

Fixed Assets

It is the corporation'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 the 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:

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates.

DEVELOPMENT CHENANGO CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2
Loans Receivable

The Corporation grants commercial loans primarily to individuals and businesses located in Chenango County New York State. Although the Corporation has diversified between large and small commercial property and in different areas of the county, borrowers are heavily dependent on the employment and economic conditions within their zone.

For the year ended December 31,		2011	2010	2009
Business Assistance Loan Fund	$	705,800	834,007	1,106,906
Micro Enterprise Fund		225,403	204,052	205,395
		931,203	1,038,059	1,312,301
Less:				
Allowance for Loan Losses		(101,794)	(61,949)	(49,639)
	$	829,409	976,110	1,262,662
Allowance for Loan Losses				
Beginning Balance		61,949	49,639	29,327
Provision for losses		39,845	11,949	20,312
Recovery of losses		-	361	-
Ending Balance	$	101,794	61,949	49,639

At December 31, 2011, the total recorded investment in impaired loans amounted to approximately $138,961. The average recorded investment in impaired loans was approximately $23,000. The allowance for loan losses related to impaired loans totaled approximately $101,794. Interest income is not recorded on impaired loan. Cash payments received in 2011 was $100; this was recognized as interest income. The Corporation has no commitments to lend additional funds to borrowers whose loans have been modified.

At December 31, 2011, the total recorded investment in loans on nonaccrual (of the related loan interest income) amounted to $50,000. The total recorded investment in loans past due ninety days or more and still accruing interest amounted to approximately $48,751, and the amount of interest not recorded on nonaccrual loans was approximately $5,543.

Federal Income Taxes

The Corporation is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Corporation is not liable for income taxes on income generated from activities related to its exempt purpose or federal unemployment insurance.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the net assets of the Corporation.

Advertising

Advertising costs are generally charged to operations as incurred.

Functional Classification of Expenses

The corporation allocates its expenses on a functional basis among its various program services. Expenses and support services that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to several programs are allocated based on various relationships.

Empire Zone

Expenditures directly made for the benefit of businesses within the Greater Norwich Empire Zone.

Federal Program

Expenditures and grants for the promotion of economic development in Chenango County

Economic Development

Direct expenditures made for the promotion of economic development in Chenango County.

Loan Portfolio

Direct expenditures made for the management of the corporation administered loan portfolios.

General & Administrative Expense

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

Management's Review

Subsequent events were evaluated through February 7, 2012, which is the date the financial statements were available to be issued.

The Corporation values the loan receivable net of an allowance for bad debts. Future maturities of the loans net of the related bad debt allowance are as follows:

For the year ended December 31,	Amount	Bad Debt Allowance	Net Loans Receivable
2012	$ 123,881	66,266	$ 57,615
2013	57,502	14,389	43,113
2014	45,254	10,635	34,619
2015	42,616	9,753	32,863
2016	28,318	751	27,567
Thereafter	633,633	-	633,633
	$ 931,204	101,794	$ 829,410

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. Bad debt expense was $39,845.

NOTE 3
Conditional Forgivable Loan

In 2006, $590,000 was provided to a Chenango County business under a government grant program. The program provided a loan for $250,000. The remaining $340,000 of those funds is a conditional forgivable receivable that is expected to be converted to a grant to the business. The business is expected to meet the economic performance targets specified in the grant agreement in the near future.

NOTE 4
Promises to Give

In prior years the Corporation received support from the City of Norwich, Town of Norwich, and Town of North Norwich which are for the Economic Development Program.

NOTE 5
New York State Urban Development Corporation (UDC) Loan Program

New York State Urban Development Corporation (UDC) established a loan program for the promotion of economic development within Chenango County. The Corporation administers the loan funds for the UDC by authorizing the issuance of loans and collecting loan payments.

The loan trust consisting of $162,000 is to be used as a revolving loan fund. Principal and interest collected by the Corporation are returned to the UDC on a quarterly basis. Principal and interest collected but not yet remitted are recorded as restricted cash and UDC program payable.

At December 31, 2011, total amounts received from the UDC from the loan trust account totaled $162,000. This amount can be reconciled as follows:

December 31,	2011
Principal payments made to UDC	$ 144,583
Write-off of loans receivable	17,417
Total UDC Program Funding	$ 162,000

During 2011, all loans issued under this program were paid off and the remaining $15,122 cash due to the UDC was returned to the grantor.

DEVELOPMENT CHENANGO CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

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 fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Investments in marketable securities are summarized as follows

At December 31, 2011	Market	Cost	Unrealized Gain (Loss)
Federal Funds	$ 929,216	929,216	$ -
Equity Securities - Consumer Discretionary	24,222	22,839	1,383
Equity Securities - Consumer Staples	17,077	16,265	812
Equity Securities - Energy	26,862	24,620	2,242
Equity Securities - Fiancials	24,872	23,008	1,864
Equity Securities - Health Care	21,122	19,306	1,816
Equity Securities - Industrials	24,163	22,246	1,917
Equity Securities - Information Technology	49,301	46,946	2,355
Equity Securities - Materials	4,337	4,259	78
Equity Mutual Funds	147,778	140,551	7,227
Governmental Mortgage Securities	457,988	448,383	9,605
Corporate Bonds	89,519	92,657	(3,138)
	$ 1,816,457	1,790,296	$ 26,161

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

December 31,	2011	2010	2009
Investments at Market Value	$ 1,816,457	1,394,253	1,390,525
Unrealized Gains (Losses)	26,161	16,722	21,491

For the years ended December 31,	2011	2010	2009
Capital Gains			
Net Realized gains (loss)	$ -	63	-
Net Unrealized gains (loss)	11,217	(4,769)	(5,177)
Dividend earned			
Equity Securities	1,752	-	-
Interest earned			
Government Agencies Debt	7,178	14,351	16,500
Certificates of Deposit	8,330	8,020	1,632
Federal Funds	89	215	3,007
	$ 28,566	17,880	15,962

The investments are sold when cash needs develop or when good investment management dictates a change in the securities held. The difference between the net proceeds from sale and cost represents the realized gain or loss on the sale of securities. The unrealized gain or loss for a year is the relative change in the 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 the 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.

Property held at December 31, 2011 consisted of the following:

December 31,	2010	Additions	Deletions	2011
Fixed asset values				
Equipment	$ 8,086	-	-	$ 8,086
Gross fixed assets	8,086	-	-	8,086
Accumulated depreciation	(6,850)	361	-	(7,211)
Fixed assets, net	$ 1,236			$ 875

The Corporation sold land in 2009 for $21,000 realizing a gain of $14,550. The net proceeds from the sale were donated to the City of Norwich to provide funding for parking projects.

NOTE 8
Net Assets

The corporation's unrestricted net assets:

December 31,	2011	2010	2009
Designated for fixed assets	$ 875	1,236	1,236
Designated for Business Assistance Loan Fund	1,194,071	1,107,581	1,106,907
Designated for Micro Enterprise Loan Fund	173,610	204,720	205,394
Undesignated	1,604,985	1,670,692	1,625,275
Unrestricted net assets	$ 2,973,541	2,984,229	2,938,812

Temporarily restricted net assets are available for the following purposes or periods:

December 31,	2011	2010	2009
Empire zone program	$ -	7,500	7,500
NYS Urban Development Corporation	-	3,613	11,113
Temporarily restricted net assets	$ -	11,113	18,613

NOTE 9
Concentrations of Credit Risk

Financial instruments that are exposed to concentrations of credit risk consist of cash, accounts receivable and investments. The cash and investments held in trustee accounts at the bank are in high quality institutions and companies with high credit ratings.

The corporation maintains their cash accounts with one financial institution. The balances at times may exceed federally insured limits.

Accounts receivable are principally with governmental entities within Chenango County.

Notes receivable are principally with Chenango County businesses and guaranteed by those business owners. Realization of these items is dependent on various individual economic conditions. The Corporation performs ongoing credit evaluations of the financial condition of the businesses and individuals and, generally, requires collateral from them. Cash and investments are based on quoted market prices. Accounts receivable and notes receivable are carried at estimated net realizable values.

NOTE 10
Related Party Transactions

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

Certain governing board members of the Corporation are governing board members and/or employees of the bank the corporation maintains cash accounts and investments. The corporation pays trustee fees to the bank of $5,341 in 2011.

Certain governing board members of the Corporation are employees of Chenango County and/or members of the Chenango County Board of Supervisors. In 2011, the corporation received direct funding from the county in the amount of $104,250.

The president of Commerce Chenango, Inc is the Executive Director and a board member of the Development Chenango Corporation. In 2011, the corporation paid Commerce Chenango for management fees, rents, and reimbursements totaling $147,251.

NOTE 11
Subsequent Events

The Corporation entered into a $104,240 contract with Chenango County to provide economic development services during the year ending December 31, 2012.

As of February 7, 2012, the Corporation executed a lease agreement to move their principal offices to 15 South Broad Street, Norwich, New York. The lease is for $1,300 per month for a term is for ten years with an option for an additional ten years.

NOTE 12
Contingency

The Corporation was notified that a lawsuit has been filed by an individual regarding injuries that occurred on the property that the Corporation formerly owned. Legal counsel representing the Corporation was retained through its insurance carrier. The Corporation believes the claim is without merit. However, the insurance policy has a $25,000 deductible and any remaining liability will be paid by the insurance carrier.

NOTE 13
Fair Value Measurements

Fair Values of assets measured on a recurring basis at December 31, 2011, 2010 and 2009 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2011:				
Investments in marketable securities	$ 1,872,332	$ 1,324,825	$ 547,507	$ -
Loans receivable, net	489,410	-	-	489,410
	$ 2,361,742	$ 1,324,825	$ 547,507	$ 489,410
At December 31, 2010:				
Investments in marketable securities	$ 643,846	$ 394,035	$ 249,811	$ -
Investments in money market funds	750,407	750,407	-	-
Loans receivable, net	639,421	-	-	639,421
	$ 2,033,674	$ 1,144,442	$ 249,811	$ 639,421
At December 31, 2009:				
Investments in marketable securities	$ 638,893	$ 294,290	$ 344,603	$ -
Investments in money market funds	751,632	751,632	-	-
Loans receivable, net	805,893	-	-	805,893
	$ 2,196,418	$ 1,045,922	$ 344,603	$ 805,893

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for assets valued using level 3 inputs may be determined by calculating the present value of the future cash flows expected to be received and a discount rate. There have been no changes in valuation techniques and related inputs.

DEVELOPMENT CHENANGO CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES

	PROGRAM SERVICES			
For the years ended December 31	Economic Development	Federal Grant	Loan Portfolio	Total
Management fee	$ 51,535	7,363	7,363	$ 66,261
Special projects	-	-	-	-
Consulting services	-	-	-	-
Program recipient	155	57,497	-	57,652
Professional fees	2,500	298	3,478	6,276
Investment management	-	-	-	-
Marketing and advertising	9,660	-	9,658	19,318
Office	9,009	601	9,009	18,619
Rent	4,980	-	4,980	9,960
Travel and training	1,250	-	-	1,250
Insurance	500	-	500	1,000
Miscellaneous	-	-	-	-
Bad debt	-	-	39,845	39,845
Depreciation	-	-	-	-
Total	$ 79,589	65,759	74,833	$ 220,181

See independent auditors' report

See accompanying notes to the financial statements

DEVELOPMENT CHENANGO CORPORATION
SCHEDULE OF FEDERAL AWARDS
For the year ended December 31, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Grantor's Number	Federal Expenditures
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-through New York State Department of Housing and Community Renewal			
Community Development Block Grant	14.218	227ME731-10	$ 83,517

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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 the financial statements of Development Chenango Corporation (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated February 7, 2012. 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.

Internal Control over Financial Reportingg
In planning and performing our audit, we considered Development Chenango Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Development Chenango Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Development Chenango Corporation's financial statements are free of 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*.

We noted certain matters that we reported to management of Development Chenango Corporation in a separate letter dated February 7, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cwynar & Company

Cwynar & Company, CPAs, PLLC

Norwich, New York
February 7, 2012