

**CHAUTAUQUA, CATTARAUGUS,
ALLEGANY & STEUBEN SOUTHERN TIER
EXTENSION RAILROAD AUTHORITY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

*Chautauqua, Cattaraugus, Allegany & Steuben
Southern Tier Extension Railroad Authority*
Salamanca, New York 14779

Report on the Financial Statements

We have audited the accompanying statement of net position of *Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority* as of December 31, 2014 and 2013, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority* as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Management's Discussion and Analysis on pages 3 and 4 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board, and considered to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bysiek CPA, PLLC

**BYSIEK CPA, PLLC
OLEAN, NY 14760
MARCH 9, 2015**

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) provides a comprehensive overview of the financial position of *Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority* as of December 31, 2014 and 2013, and its results of operations for the years then ended. Management has prepared the financial statements and related footnote disclosures along with this MD&A.

Using the Annual Financial Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The financial statements prescribed by GASB Statement No. 34 (the *Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position*, and the *Statement of Cash Flows*) present financial information in a form similar to that used by corporations. As such, they are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The *Statements of Net Position* include all assets and liabilities. Over time, increases or decreases in net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Authority's overall financial health when considered with non-financial facts.

The *Statements of Revenue, Expenses, and Changes in Net Position* present the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, amortizing the cost of the capital asset over its expected useful life.

The *Statements of Cash Flows* present information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities, and helps measure the ability of the Authority to meet financial obligations as they mature.

Financial Highlights

Following are the financial highlights of the Authority for the years ended December 31, 2014 and 2013:

- Incurred depreciation expense of approximately \$568,000 and \$816,000 for the years ended December 31, 2014 and 2013, respectively.
- Received grant funding (including FEMA reimbursements) of approximately \$1,285,000 and \$760,000 for the years ended December 31, 2014 and 2013, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of three components: 1) financial statements; 2) notes to the financial statements; and 3) report on internal controls over financial reporting.

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

Condensed Statements of Net Position

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Current assets | \$ 125,066 | \$ 61,674 |
| Capital assets | <u>3,285,965</u> | <u>2,693,594</u> |
| Total assets | <u>\$ 3,411,031</u> | <u>\$ 2,755,268</u> |
| | | |
| Total liabilities | <u>\$ -</u> | <u>\$ 66,035</u> |
| | | |
| Net position: | | |
| Invested in capital assets, net of related debt | \$ 3,285,965 | \$ 2,627,559 |
| Unrestricted net position | <u>125,066</u> | <u>61,674</u> |
| Total net position | <u>\$ 3,411,031</u> | <u>\$ 2,689,233</u> |

The statements of revenue, expenses and changes in net position shows the business type activity of the Authority and provides information regarding income and expenses that affect net position.

Condensed Statements of Revenue, Expenses and Change in Net Position

| | <u>2014</u> | <u>2013</u> |
|------------------------|--------------------|--------------------|
| Total revenues | \$ 1,325,017 | \$ 781,800 |
| Total expenses | <u>603,220</u> | <u>851,078</u> |
| Change in net position | <u>\$ 721,797</u> | <u>\$ (69,278)</u> |

The summary of accounting policies and notes to the financial statements provide additional information that is essential to a full and complete understanding of the information provided in the financial statements.

Economic Factors That Will Affect the Future

The Authority remains committed to rehabilitating and preserving rail service for the Southern Tier Region. Its ability to successfully accomplish this is at least in part based upon the economic outlook for the Southern Tier Region as well as upon its ability to continue to attract funding for future improvements.

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
STATEMENTS OF NET POSITION**

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| <i>As of December 31,</i> | <u>2014</u> | <u>2013</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 125,066 | \$ 21,674 |
| Accounts receivable | - | 40,000 |
| Total current assets | <u>125,066</u> | <u>61,674</u> |
| Property improvements, less accumulated depreciation (Note 2) | <u>3,285,965</u> | <u>2,693,594</u> |
| Total assets | <u>\$ 3,411,031</u> | <u>\$ 2,755,268</u> |
| Liabilities and Net position | | |
| Current liabilities | | |
| Notes payable | \$ - | \$ 66,035 |
| Total liabilities | <u>-</u> | <u>66,035</u> |
| Net position | | |
| Invested in capital assets, net of related debt | 3,285,965 | 2,627,559 |
| Unrestricted | 125,066 | 61,674 |
| Total net position | <u>\$ 3,411,031</u> | <u>\$ 2,689,233</u> |
| Total liabilities and net position | <u>\$ 3,411,031</u> | <u>\$ 2,755,268</u> |

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

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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For the Year Ended December 31,

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Revenues | | |
| Rental income | \$ 40,000 | \$ 40,000 |
| NYS grant revenue | 1,130,826 | 281,939 |
| FEMA reimbursements | 154,191 | 459,861 |
| Total revenues | <u>1,325,017</u> | <u>781,800</u> |
| Expenses | | |
| Depreciation | 568,036 | 815,959 |
| Insurance | 5,274 | 5,274 |
| Professional fees | 29,910 | 29,845 |
| Total expenses | <u>603,220</u> | <u>851,078</u> |
| Change in net position | 721,797 | (69,278) |
| Net position, beginning of year | <u>2,689,234</u> | <u>2,758,512</u> |
| Net position, end of year | <u>\$ 3,411,031</u> | <u>\$ 2,689,234</u> |

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

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
STATEMENTS OF CASH FLOWS**

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For the Year Ended December 31,

| | 2014 | 2013 |
|---|---------------------|-------------------|
| Cash flows from operating activities: | | |
| Cash received for rent | \$ 80,000 | \$ - |
| Cash received from FEMA | 154,191 | 459,861 |
| Cash received from grants | 1,130,826 | 281,939 |
| Cash paid to vendors | (35,184) | (35,119) |
| Net cash provided by operating activities | 1,329,833 | 706,681 |
| Cash flows from investing activities | | |
| Capital expenditures | (1,160,406) | (281,939) |
| Net cash used in investing activities | (1,160,406) | (281,939) |
| Cash flows from financing activities | | |
| Payments on WNYPRR loan | (66,035) | (411,675) |
| Net cash used in financing activities | (66,035) | (411,675) |
| Net change in cash | 103,392 | 13,067 |
| Cash, beginning of year | 21,674 | 8,607 |
| Cash, end of year | \$ 125,066 | \$ 21,674 |
| Reconciliation of change in net position to net cash provided by operating activities: | | |
| Change in net position | \$ 721,797 | \$ (69,278) |
| Adjustments to reconcile change in net assets | | |
| net cash provided by operating activities: | | |
| Depreciation | 568,036 | 815,959 |
| Change in current assets and liabilities: | | |
| Rent receivable | 40,000 | (40,000) |
| Note payable | (66,035) | - |
| Net cash provided by operating activities | \$ 1,329,833 | \$ 706,681 |

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

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority (STERA) was incorporated in July 2000 as a public authority created by the New York State Legislature under NY Consolidated Law, NYS Public Authorities Law, Title 28-AA. The purpose of the Authority is to preserve and enhance the railroad system serving Chautauqua, Cattaraugus, Allegany and Steuben counties in New York and Warren and Erie counties in the Commonwealth of Pennsylvania, so as to insure a healthy economy for these counties.

Basis of Accounting

The accounts have been maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Depreciation

The Authority follows a policy of capitalizing all significant fixed asset purchases at cost. These assets are depreciated by the straight-line method over their estimated useful lives.

Credit Risk

At various times throughout the year balances may exceed federally insured amounts.

NOTE 2 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property and equipment for the Authority consists of the following:

| | 12/31/2013 | | | 12/31/2014 |
|----------------------------|---------------------|-------------------|-------------------|---------------------|
| | Balance | Additions | Reductions | Balance |
| Improvements to rail line | \$ 13,407,644 | \$ 1,160,406 | \$ -- | \$ 14,568,050 |
| Accumulated depreciation | <u>(10,714,051)</u> | <u>(568,036)</u> | <u>--</u> | <u>(11,282,087)</u> |
| Net property and equipment | <u>\$ 2,693,593</u> | <u>\$ 592,370</u> | <u>\$ --</u> | <u>\$ 3,285,963</u> |

Depreciation expense totaled approximately \$568,000 and \$816,000 for the years ended December 31, 2014 and 2013, respectively.

As a condition of its acceptance of a \$3,000,000 grant from the US Department of Commerce Economic Development Administration (EDA), the Authority was required to allow the government to retain an undivided equitable reversionary interest in the property improved in whole or in part with the funds made available through the award throughout the useful life of the property. For purposes of this award, the grant agreement defines the useful life to be seven years. As a result of the retention of this undivided equitable reversionary interest in the property, the EDA reserves the right to recover its award in its entirety should the property be disposed of or no longer be needed for the purpose of the award during this seven year useful life.

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - PROPERTY, EQUIPMENT AND DEPRECIATION (continued)

During the years ended December 31, 2014 and 2013, **STERA** incurred capital expenditures totaling approximately \$1,160,000 and \$282,000, respectively. These expenditures related to bridges carrying the railroad over highways or waterways, which provided for track realignment and bridge repair in Chautauqua County. These projects are being funded by grant proceeds from New York State.

NOTE 3 – LONG-TERM DEBT

During the year ending December 31, 2012, **STERA** received a loan in the amount of \$477,709 from WNYP. The loan was interest-free and did not specify terms of repayment. The entire amount owed was repaid during the years ending December 31, 2014 and 2013.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Southern Tier West Regional Planning and Development Board (STWRP&DB) provides management services to the Authority. Expenses incurred for each of the years ended December 31, 2014 and 2013 for these services amounted to approximately \$25,000 and \$15,000, respectively. Amounts owed to the Board at December 31, 2014 and 2013 totaled \$0.

NOTE 5 - FEDERAL TAX STATUS

The Internal Revenue Service has classified the Authority as exempt from Federal Income taxes under Section 501(a) of the United States Internal Revenue Code.

NOTE 6 - GRANTS AND CONTRACTS

STERA received grant funding for two capital projects related to the rehabilitation of the railroad. The first provides for the repair of five bridges carrying the railroad over highways and or waterways. The second provided for track realignment and bridge repair in Chautauqua County. The total amount received and expended by **STERA** was approximately \$1,130,000 and \$282,000 for the years ending December 31, 2014 and 2013, respectively.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Substantially all grants and contracts are subject to financial and compliance audits by the grantor agencies. Disallowances, if any, as a result of these audits may become liabilities of the Authority. Management believes that no material disallowances will result from audits by grantor agencies.

NOTE 8 – DATE OF MANAGEMENT’S REVIEW

Management has evaluated events and transactions through March 9, 2015, which is the date the accompanying financial statements were available to be issued.



**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**

Board of Directors

***Chautauqua, Cattaraugus, Allegany & Steuben
Southern Tier Extension Railroad Authority
Salamanca, 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 ***Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority (STERA)***, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise ***STERA's*** basic financial statements, and have issued our report thereon dated March 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***STERA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ***STERA's*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***STERA'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 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. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs (labeled 2014-01) to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ***STERA'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*.

Organization's Response to Findings

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

Purpose of this Report

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

Bysiek CPA, PLLC

**BYSIEK CPA, PLLC
OLEAN, NY 14760
MARCH 9, 2015**

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Section I – Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of *Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority (STERA)*.
2. One significant deficiency in internal controls related to the audit of the financial statements is reported in the Report on Internal Controls over Financial Reporting. Item 2014-01 is also considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of *STERA* were disclosed during the audit.

Section II – Findings: Audit of Financial Statements

A. Internal Control Over Financing Reporting

2014-01: Financial Reporting

Condition and Criteria: The auditor was relied on and contracted to prepare the financial statements and footnote disclosures.

Effect: Since internal control over financial reporting includes controls over external financial reporting, and as the auditor cannot be considered part of the Organization's internal control, this results in a material weakness in the Organization's internal control.

Auditor's Recommendation: The Organization should consider investing in the resources necessary to prepare financial statements that would not require the auditor to propose material adjustments in order that they be in compliance with U.S. generally accepted accounting principles.

Organization's Response: The Organization is considering the benefits of implementing this recommendation in comparison with the related costs it would incur.

B. Compliance and Other Matters

There were no compliance findings noted for the year ending December 31, 2014.