

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

**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

We have audited the accompanying statement of net assets of *Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority* as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted my audits 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 audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 *Chautauqua, Cattaraugus, Allegany & Steuben Southern Tier Extension Railroad Authority* as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 and 3 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Bysiek CPA, PLLC

BYSIEK CPA, PLLC
OLEAN, NY 14760
MARCH 18, 2013

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

The following is a narrative overview and analysis of the Authority's financial performance for the years ended December 31, 2012 and 2011. This section is only an introduction and should be read in conjunction with the Authority's financial statements, which immediately follow this section.

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, 2011, and its results of operations for the year 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.

The financial statements prescribed by GASB Statement No. 34 (the *Statement of Net Assets, Statement of Revenue, Expenses, and Changes in Net Assets*, 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 Assets* includes all assets and liabilities. Over time, increases or decreases in net assets (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 Assets* presents 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* presents 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, 2012 and 2011:

Incurred depreciation expense of \$1,207,352 and \$1,233,315 for the years ended December 31, 2012 and 2011, respectively, on improvements to the rail line.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The System's basic financial statements are comprised of three components: 1) financial statements 2) accounting policies and 3) notes to the financial statements.

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

**CHAUTAUQUA, CATTARAUGUS, ALLEGANY & STEUBEN
SOUTHERN TIER EXTENSION RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012 and 2011**

Condensed Statements of Net Assets

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Current assets | \$ 8,607 | \$ 106,244 |
| Capital assets | <u>3,227,614</u> | <u>3,642,409</u> |
| Total assets | <u>\$ 3,236,221</u> | <u>\$ 3,748,653</u> |
| Current liabilities | \$ - | \$ 9,482 |
| Noncurrent liabilities | <u>477,709</u> | <u>-</u> |
| Total liabilities | <u>\$ 477,709</u> | <u>\$ 9,482</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | \$ 2,749,905 | \$ 3,642,409 |
| Unrestricted net assets | <u>8,607</u> | <u>96,762</u> |
| Total net assets | <u>\$ 2,758,512</u> | <u>\$ 3,739,171</u> |

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

Condensed Statements of Revenue, Expenses and Change in Net Assets

| | <u>2012</u> | <u>2011</u> |
|----------------------------|---------------------|-----------------------|
| Rental income | \$ 40,000 | \$ 40,000 |
| FEMA reimbursements | <u>206,543</u> | <u>-</u> |
| Total revenues | <u>\$ 246,543</u> | <u>\$ 40,000</u> |
| Operating expenses: | | |
| Administrative and general | 19,850 | 39,242 |
| Depreciation | <u>1,207,352</u> | <u>1,233,315</u> |
| Total expenses | <u>\$ 1,227,202</u> | <u>\$ 1,272,557</u> |
| Change in net assets | <u>\$ (980,659)</u> | <u>\$ (1,232,557)</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 ASSETS

| <i>As of December 31,</i> | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Cash | \$ 8,607 | \$ 96,762 |
| Grants receivable | <u>-</u> | <u>9,482</u> |
| Total current assets | <u>8,607</u> | <u>106,454</u> |
| Property improvements, less accumulated depreciation (Note 2) | <u>3,227,614</u> | <u>3,642,409</u> |
| Total assets | <u>\$ 3,236,221</u> | <u>\$ 3,748,653</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ <u>-</u> | \$ <u>9,482</u> |
| Non-current liabilities | | |
| Notes payable | <u>477,709</u> | <u>-</u> |
| Total liabilities | <u>477,709</u> | <u>9,482</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 2,749,905 | 3,642,409 |
| Unrestricted | <u>8,607</u> | <u>96,762</u> |
| Total net assets | <u>2,758,512</u> | <u>3,739,171</u> |
| Total liabilities and net assets | <u>\$ 3,236,221</u> | <u>\$ 3,748,653</u> |

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

**STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS**

| <i>Year ended December 31,</i> | <u>2012</u> | <u>2011</u> |
|--------------------------------------|----------------------------|----------------------------|
| Revenue: | | |
| Rental income | \$ 40,000 | \$ 40,000 |
| FEMA reimbursements | <u>206,543</u> | <u>-</u> |
| Total revenue | <u>246,543</u> | <u>40,000</u> |
| Expenses: | | |
| Depreciation | 1,207,352 | 1,233,315 |
| Insurance | 4,883 | 4,851 |
| Uncollectible accounts | - | 20,235 |
| Professional fees | <u>14,967</u> | <u>14,156</u> |
| Total expenses | <u>1,227,202</u> | <u>1,272,557</u> |
| Change in net assets | (980,659) | (1,232,557) |
| Net assets, beginning of year | <u>3,739,171</u> | <u>4,971,728</u> |
| Net assets, end of year | <u>\$ 2,758,512</u> | <u>\$ 3,739,171</u> |

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

STATEMENTS OF CASH FLOWS

| <i>Year ended December 31,</i> | <u>2012</u> | <u>2011</u> |
|---|--------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Cash received for rent | \$ 40,000 | \$ 40,000 |
| Cash received from FEMA | 206,543 | |
| Cash paid to suppliers | <u>(19,850)</u> | <u>(19,007)</u> |
| Net cash provided by operating activities | <u>226,693</u> | <u>20,993</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | <u>(792,557)</u> | <u>--</u> |
| Net cash used in investing activities | <u>(792,557)</u> | <u>--</u> |
| Cash flows from financing activities: | | |
| Proceeds from WNYPRR loan | <u>477,709</u> | <u>--</u> |
| Net cash used in investing activities | <u>477,709</u> | <u>--</u> |
| Net change in cash | (88,155) | 20,993 |
| Cash, beginning of year | <u>96,762</u> | <u>75,769</u> |
| Cash, end of year | <u>\$ 8,607</u> | <u>\$ 96,762</u> |
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | \$ (980,659) | \$ (1,232,557) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Uncollectible accounts | -- | 20,235 |
| Depreciation | 1,207,352 | 1,233,315 |
| Change in operating assets and liabilities: | | |
| Rent receivable | -- | -- |
| Grants receivable | -- | -- |
| Accounts payable | <u>--</u> | <u>--</u> |
| Net cash provided by operating activities | <u>\$ 226,693</u> | <u>\$ 20,993</u> |

**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:

| | 12/31/2011 | | | 12/31/2012 |
|----------------------------|---------------------|---------------------|-------------------|---------------------|
| | Balance | Additions | Reductions | Balance |
| Improvements to rail line | \$ 12,333,148 | \$ 792,557 | \$ -- | \$13,125,705 |
| Accumulated depreciation | <u>(8,690,739)</u> | <u>(1,207,352)</u> | <u>--</u> | <u>(9,898,091)</u> |
| Net property and equipment | <u>\$ 3,642,409</u> | <u>\$ (414,795)</u> | <u>\$ --</u> | <u>\$ 3,227,614</u> |

Depreciation expense for the Authority totaled \$1,207,352 and \$1,233,315 for each of the years ended December 31, 2012 and 2011.

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

NOTE 2 - PROPERTY, EQUIPMENT AND DEPRECIATION (continued)

As a condition of its acceptance of the \$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.

During the year ending December 31, 2012, **STERA** incurred capital expenditures totaling \$792,557 related to repairs of railroad lines due to damages caused by storms which occurred during April and May of 2011. To finance these repairs, The Western New York and Pennsylvania Railroad (WNYP) loaned **STERA** amounts totaling \$477,709. The loan is interest-free and does not stipulate terms of repayment. **STERA** also received \$206,543 in grant proceeds from the Federal Emergency Management Agency (FEMA), and utilized \$108,035 of Authority assets to help fund the repairs.

NOTE 3 - 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, 2012 and 2011 for these services amounted to \$10,000. Amounts owed to the Board at December 31, 2012 and 2011 totaled \$0.

NOTE 4 - 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 5 - GRANTS AND CONTRACTS

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 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 18, 2013, which is the date the accompanying financial statements were available to be issued.