CHADWICK BAY
REGIONAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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JOHNSON, MACKOWIAK
& ASSOCIATES, LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

February 3, 2014

To the Board of Directors
Chadwick Bay Regional Development Corporation
338 Central Avenue, Suite 210
Dunkirk, New York 14048

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Chadwick Bay Regional Development Corporation (the "Corporation"), as of and for the years ended December 31, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 respective financial position of the governmental activities and each major fund of the Corporation as of and for the years ended December 31, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2014, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

This discussion and analysis of the Chadwick Bay Regional Development Corporation's (the "Corporation") financial performance provides an overview of the Corporation's financial activities for the years ended December 31, 2013 and 2012. This document should be read in conjunction with the Corporation's financial statements which begin on page 5.

FINANCIAL HIGHLIGHTS

- The Corporation's net position increased $29,822 to $53,714 as a result of the activity for the year ended December 31, 2013, subsequent to a decrease of $944 as a result of the activity for the year ended December 31, 2012.
- The Corporation was awarded an Appalachian Regional Commission (ARC) grant for the implementation of a regional water system in northern Chautauqua County. This grant for $150,000 requires a local match of $150,000. A Lead Consultant (Clark Patterson Lee) and a Financial Consultant (Brennan Group Consulting) were hired to create the implementation plan. Corporate and local grant funds were utilized for the ARC match required for reimbursement for eligible activities to date.
- The Corporation's expected results for 2014 include the substantial completion of the Northern Chautauqua County Regional Water System implementation plan. Additional funding sources are being pursued to continue efforts to fully implement a regional water system. The corporate municipal members will provide membership dues for the support of routine corporate expenses.

USING THIS REPORT

The annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information regarding the Corporation as a whole and present a longer-term view of the Corporation's finances. Financial statements for each fund start on page 7. For governmental activities, these statements show how services were financed in the overall operation of the Corporation in greater detail than the Entity-wide financial statements.

REPORTING THE CORPORATION AS A WHOLE

<u>The Statement of Net Position and Statement of Activities</u>

The statement of net position and statement of activities show information about the Corporation as a whole. These statements include all assets and liabilities of the Corporation using the accrual basis of accounting which is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net position and the changes to them. The Corporation's net position – the difference between assets and liabilities – are a way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating.

- In the statement of net position and the statement of activities, the Corporation reports all its basic services as governmental activities. These services are primarily economic development and the promotion of projects that support and enhance the quality of life in the region.

REPORTING THE CORPORATION'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our discussion and analysis of the Corporation's major (sole) fund begins on page 7 and provide detail of the Corporation's most significant fund on an individual basis rather than the Corporation taken as a whole. Some funds are required to be established by state or local law or by the nature of the federal and state funding for their operation. Currently the Corporation only utilizes a single governmental fund.

Governmental Funds

The sole fund of the Corporation is considered a governmental fund. This Section focuses on how revenue flows into and out of this fund and the balance of the fund at year-end which is available for future spending. The fund is reported using the modified accrual basis of accounting which measures cash and financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Corporation's general operations and the basic services it provides. This information helps determine the financial resources that can be spent to finance Corporation programs. The relationship between the governmental activities (accrual basis) and the governmental funds (modified accrual basis) is provided in reconciliations on pages 8 and 10.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have any questions or need additional information, contact Katherine Tampio, Executive Director, 338 Central Avenue, Suite 210, Dunkirk, New York 14048.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF NET POSITION
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
Cash and cash equivalents	$ 46,509	$ 18,574
Due from other governments	7,240	5,353
Capital assets, net	-	-
TOTAL ASSETS	$ 53,749	$ 23,927

LIABILITIES AND NET POSITION

LIABILITIES		
Accounts payable	$ 35	$ 35
TOTAL LIABILITIES	35	35
NET POSITION		
Investment capital assets, net of related debt	-	-
Unrestricted	53,714	23,892
TOTAL NET POSITION	53,714	23,892
TOTAL LIABILITIES AND NET POSITION	$ 53,749	$ 23,927

See accompanying notes to financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
REVENUES		
Grants and contributions	$ 102,011	$ 66,068
Municipal revenues	15,773	-
TOTAL REVENUES	117,784	66,068
EXPENSES		
Project expense	42,701	45,119
Legal and professional fees	35,657	12,033
General and administrative expenses	5,435	5,131
Accounting and auditing	3,000	3,500
Insurance	607	607
Office expense	256	581
Meeting expenses	306	41
TOTAL EXPENSES	87,962	67,012
CHANGE IN NET POSITION	29,822	(944)
NET POSITION, beginning of year	23,892	24,836
NET POSITION, end of year	$ 53,714	$ 23,892

See accompanying notes to the financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS - GOVERNMENTAL FUNDS
DECEMBER 31, 2013 AND 2012

ASSETS

	2013	2012
ASSETS		
Cash and cash equivalents	$ 46,509	$ 18,574
Due from other governments	7,240	5,353
TOTAL ASSETS	$ 53,749	$ 23,927

LIABILITIES AND FUND BALANCE

LIABILITIES		
Accounts payable	$ 35	$ 35
TOTAL LIABILITIES	35	35
FUND BALANCE		
Unassigned fund balance	53,714	23,892
TOTAL LIABILITIES AND FUND BALANCE	$ 53,749	$ 23,927

See accompanying notes to the financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	$ 53,749	$ 23,927
Amounts reported for governmental activities in the statements of net position are different because:		
Property and equipment used in governmental activities are not financial resources and therefore not reported in the governmental funds.		
Governmental property and equipment	5,851	5,851
Less accumulated depreciation	(5,851)	(5,851)
	-	-
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 53,749	$ 23,927

See accompanying notes to financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
REVENUES		
Grants and contributions	$ 102,011	$ 66,068
Municipal revenue	15,773	-
TOTAL REVENUES	117,784	66,068
EXPENDITURES		
Project expense	42,701	45,119
Legal and professional fees	35,657	12,033
General and administrative expenses	5,435	5,131
Accounting and auditing	3,000	3,500
Insurance	607	607
Office expense	256	581
Meeting expenses	306	41
TOTAL EXPENDITURES	87,962	67,012
Excess (Deficiency) of Revenues Over Expenditures	29,822	(944)
FUND BALANCE, beginning of year	23,892	24,836
FUND BALANCE, end of year	$ 53,714	$ 23,892

See accompanying notes to the financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENT FUNDS	$ 29,822	$ (944)
Amounts reported for governmental activities in the statements of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Accordingly depreciation is not recognized.	-	-
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 29,822	$ (944)

See accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Chadwick Bay Regional Development Corporation (the "Corporation") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's significant accounting policies are described below.

A. Reporting Entity

1. Nature of the Organization

   The Chadwick Bay Regional Development Corporation was incorporated in 2003 to promote economic and infrastructure development projects of regional significance. Governed by the chief elected officials of the nine member communities, the Corporation meets monthly to take actions that accomplish projects throughout the region of northern Chautauqua County. The mission of the Corporation is to preserve the character of the region wherein rural surroundings are enjoyed and none of the advantages of the city are lost while fostering safe, progressive, prosperous living and improving the quality of life for all residents through preserving and expanding existing businesses and industry, seeking new complimentary enterprises, and creating new opportunities for job creation and economic revitalization.

B. Basis of presentation:

1. Entity-wide statements:

   The Statement of Net Position and the Statement of Activities present financial information about the Corporation's governmental activities. These statements include the financial activities of the overall governmental entity in its entirety.

2. Fund financial statements:

   The fund statements provide information about the Corporation's funds. Currently, the Corporation maintains a single governmental fund. The emphasis of fund financial statements is on this governmental fund.

   The Corporation reports the following major governmental fund:

   General Fund: This is the Corporation's primary operating fund. Currently, the general fund is the only fund of the Corporation.

C. Measurement focus and basis of accounting

The Entity-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Corporation gives or receives value without directly receiving or giving equal value in exchange, may include grants and donations. On an accrual basis, revenue is recognized in the fiscal year for which the revenue is earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Corporation considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt or claims and judgments (if applicable), which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

D. Cash and Cash Equivalents

The Corporation's cash and cash equivalents consists of demand deposits. New York State law governs the Corporation's investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United State Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. All deposits of the Corporation were fully insured through FDIC throughout the years ending December 31, 2013 and 2012.

E. Estimates

The preparation of the 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 revenues, expenditures, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates and those differences could be significant.

F. Accounting and Reporting Changes

In November 2010, GASB issued GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The Corporation implemented Statement No. 61 effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 61 had no effect on the Corporation's financial statements.

In March 2012, GASB issued GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Corporation implemented Statement No. 65, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 65 had no effect on the Corporation's financial statements.

In March 2012, GASB issued GASB Statement No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The Corporation implemented Statement No. 66, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 66 had no effect on the Corporation's financial statement.

In June 2012, GASB issued GASB Statement No. 67 - *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Corporation implemented Statement No. 67, effective for the fiscal year ending December 31, 2013, with retroactive application for the fiscal year ended December 31, 2012. The adoption of Statement No. 67 had no effect on the Corporation's financial statement.

During December 2009, GASB issued Statement No. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending December 31, 2012; This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Corporation implemented Statement No. 57, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 57 had no effect on the Corporation's financial statements.

During November 2010, GASB issued Statement No 60 - *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the year ending December 31, 2012; The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Corporation implemented Statement No. 60, effective for the fiscal year ending December 31, 2012, The Corporation implemented Statement No. 60, effective for the fiscal year ending December 31, 2012, with retroactive appliacation for the fiscal year ended December 31, 2011. The adoption of Statement No. 60 had no effect on the Corporation's financial statements.

In December 2010, GASB issued GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statement and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The Corporation implemented Statement No. 62, effective for the fiscal year ending December 31, 2012, with retroactive appliacation for the fiscal year ended December 31, 2011. The adoption of Statement No. 62 had no effect on the Corporation's financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In June 2011, GASB issued GASB Statement No. 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The Corporation implemented Statement No. 63, effective for the fiscal year ending December 31, 2012, The Corporation implemented Statement NO. 63, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 63 had no effect on the Corporation's financial statements.

In June 2011, GASB issued GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Corporation implemented Statement No. 64, effective for the fiscal year ending December 31, 2012, The Corporation implemented Statement NO. 64, effective for the fiscal year ending December 31, 2012, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 64 had no effect on the Corporation's financial statements.

G. Future Impacts of Accounting Pronouncements

The Corporation has not completed the process of evaluating the impact that will result from adopting Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; effective for the year ending December 31, 2015; GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*; effective for the year ending December 31, 2014; and GASB Statement No. 70 - *Accounting and Financial Reporting for Nonexchange Financial Guarantees*; effective for the year ending December 31, 2014; GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequesnt to the Measurement Date - an amendment of GASB Statement No. 68*; effective for the year ending December 31, 2015.

The Corporation is therefore unable to disclose the impact that adopting these GASB Statements will have on its financial position and results of operation when such statements are adopted.

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND ENTITY-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the Entity-wide statements, certain financial transactions are treated differently. The basic financial statements contain full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

A. Total fund balances of governmental funds vs. net position of governmental activities:

Total fund balances of the Corporation's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental funds Balance Sheets.

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND ENTITY-WIDE STATEMENTS, continued

B. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of the three broad categories. The amounts shown below represent:

1. Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

2. Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the differences between recording an expenditure for the purchase of capital items in the governmental funds statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental funds, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

NOTE 3 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property, equipment and depreciation consist of the following:

	Year ended December 31, 2013			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Property and equipment that is depreciated:				
Office improvements	$ 5,851	$ -	$ -	$ 5,851
Total depreciable historical cost	5,851	-	-	5,851
Less accumulated depreciation:				
Office improvements	5,851	-	-	5,851
Total accumulated depreciation	5,851	-	-	5,851
Total depreciable historical cost, net	$ -	$ -	$ -	$ -

NOTE 3 - PROPERTY, EQUIPMENT AND DEPRECIATION, continued

	Year ended December 31, 2012			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Property and equipment that is depreciated:				
Office improvements	$ 5,851	$ -	$ -	$ 5,851
Total depreciable historical cost	5,851	-	-	5,851
Less accumulated depreciation:				
Office improvements	5,851	-	-	5,851
Total accumulated depreciation	5,851	-	-	5,851
Total depreciable historical cost, net	$ -	$ -	$ -	$ -

NOTE 4 - EQUITY CLASSIFICATIONS

A. Entity-wide Statements

In the government- wide statements, there are three classes of net position:

Invested in Capital Assets, Net of Related Debt - This class consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of these assets.

Restricted - Restricted net position report constraints placed on assets that are either legally imposed by creditors (such as through covenants), grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

The Corporation does not have any restricted net position at December 31, 2013 and 2012.

Unrestricted - Designations are not legally required restrictions, but are segregated for a specific purpose.

B. Fund Statements

In the fund basis statements there are five classifications of fund balance:

Non-Spendable - includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The Corporation does not have any nonspendable fund balance at December 31, 2013 and 2012.

Restricted - includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. At December 31, 2013 and 2012 the Corporation does not have any restricted fund balances.

Committed - includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the Corporation's highest level of decision making authority, i.e., the Board of Directors. At December 31, 2013 and 2012 the Corporation did not have any committed fund balances.

Assigned - includes amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. The Corporation did not have any assigned fund balances at December 31, 2013 or 2012.

Unassigned - includes all other spendable amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the Corporation.

Order of Use of Fund Balance - The Corporation's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined.

NOTE 5 - GRANTS AND CONTRIBUTIONS

The Corporation was awarded a $150,000 grant from the Appalachian Regional Commission (ARC), a Federal-State partnership that works for sustainable community and economic development, to develop a Northern Chautauqua regional water system during the year ended December 31, 2012. The grant requires a matching contribution equal to grant disbursements. The Corporation received ARC grant funding of $61,221 and $15,068 in the year ended December 31, 2013 and 2012 respectively. The Corporation also received $40,800 and $51,000 of matching contributions in the year ended December 31, 2013 and 2012 respectively.

NOTE 6 - PROJECT EXPENSES

The Corporation incurred project expenses related to the development of the Northern Chautauqua regional water system in the amount of $42,701 and $45,119 for the year ended December 31, 2013 and 2012 respectively.

NOTE 7 - COMMITMENTS

The Corporation entered into a twelve-month contract with Brennan Group Consulting on March 1, 2012 for financial services related to the development of the Northern Chautauqua regional water system. The contract requires the Corporation to make monthly payments of $3,416. The contract was subsequently renewed on March 1, 2013 on a month to month basis at a monthly rate of $4,168 plus travel expenses. The Corporation paid $42,701 and $30,744 for contracted financial services during the years ended December 31, 2013 and 2012, respectively.

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

Events and transactions which have occurred from December 31, 2013 through February 3, 2014, the date of these financial statements, have been evaluated by management for the purpose of determining whether there were any events that might require disclosure in these financial statements. No such events or transactions were noted.

JOHNSON, MACKOWIAK
& ASSOCIATES, LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S 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*

February 3, 2014

To the Board of Directors
Chadwick Bay Regional Development Corporation
338 Central Avenue, Suite 210
Dunkirk, New York 14048

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Chadwick Bay Regional Development Corporation (the "Corporation"), as of and for the year ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated February 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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. We did not identify any deficiencies in internal control over financial reporting as defined here.

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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 to findings and questioned costs to be a significant deficiency. Finding 2013-1.

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Corporation's Response to Findings

The Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Significant Deficiencies Not Considered Material Weaknesses:

2013-1 - Preparation of Financial Statements and Note Disclosures

Condition: The auditors prepared a draft of the financial statements and note disclosures which were accepted by the organization for the year ended December

Criteria: The organization should review and accept all proposed note disclosures

Effect: In October 2008, the American Institute of Certified Public Accountants issued Statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters in an Audit, effective for audit periods ending on or after December 15, 2009. The standard requires the auditor to communicate significant deficiencies and material weaknesses to management and those charged with governance. The

Recommendation: We recommend that while the auditors may continue providing assistance with the preparation of the financial statements, the organization should continue to review and accept all proposed financial statements and note disclosures.

Management Response: The organization will continue to review and approve all proposed note disclosures and draft of the financial statements.