

**CHADWICK BAY
REGIONAL DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF NET ASSETS
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Cash and cash equivalents	\$ 18,574	\$ 7,998
Accounts receivable	-	1,600
Due from other governments	5,353	15,238
Capital assets, net	-	-
TOTAL ASSETS	\$ 23,927	\$ 24,836

LIABILITIES AND NET ASSETS

LIABILITIES	\$ -	\$ -
Accounts payable	35	-
TOTAL LIABILITIES	35	-
NET ASSETS		
Investment capital assets, net of related debt	-	-
Unrestricted net assets	23,892	24,836
TOTAL NET ASSETS	23,892	24,836
TOTAL LIABILITIES AND NET ASSETS	\$ 23,927	\$ 24,836

See accompanying notes to financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUES		
Grants and contributions	\$ 66,068	\$ -
Municipal revenues	-	22,088
Refund of prior year expenditures	-	1,600
	66,068	23,688
TOTAL REVENUES	66,068	23,688
EXPENSES		
Project expense	45,119	-
Legal and professional fees	12,033	9,869
General and administrative expenses	5,131	6,000
Accounting and auditing	3,500	625
Insurance	607	-
Office expense	581	-
Meeting expenses	41	-
	67,012	16,494
TOTAL EXPENSES	67,012	16,494
CHANGE IN NET ASSETS	(944)	7,194
NET ASSETS, beginning of year	24,836	17,642
NET ASSETS, end of year	\$ 23,892	\$ 24,836

See accompanying notes to the financial statements.

**CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS - GOVERNMENTAL FUNDS
DECEMBER 31, 2012 AND 2011**

ASSETS

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 18,574	\$ 7,998
Accounts receivable	-	1,600
Due from other governments	5,353	15,238
TOTAL ASSETS	\$ 23,927	\$ 24,836

LIABILITIES AND FUND BALANCE

LIABILITIES		
Accounts payable	\$ 35	\$ -
TOTAL LIABILITIES	35	-
FUND BALANCE		
Unassigned fund balance	23,892	24,836
TOTAL LIABILITIES AND FUND BALANCE	\$ 23,892	\$ 24,836

See accompanying notes to the financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUES		
Grants and contributions	\$ 66,068	\$ -
Municipal revenue	-	22,088
Refund of prior year expenditures	-	1,600
	66,068	23,688
EXPENDITURES		
Project expense	45,119	-
Legal and professional fees	12,033	9,869
General and administrative expenses	5,131	6,000
Accounting and auditing	3,500	625
Insurance	607	-
Office expense	581	-
Meeting expenses	41	-
	67,012	16,494
Excess (Deficiency) of Revenues Over Expenditures	(944)	7,194
FUND BALANCE, beginning of year	24,836	17,642
FUND BALANCE, end of year	\$ 23,892	\$ 24,836

See accompanying notes to the financial statements.

**CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET ASSETS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 23,892	\$ 24,836
 Amounts reported for governmental activities in the statements of net assets 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 ASSETS OF GOVERNMENTAL ACTIVITIES	 \$ 23,892	 \$ 24,836

See accompanying notes to 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, 2012 AND 2011**

	2012	2011
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENT FUNDS	\$ (944)	\$ 7,194
 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 ASSETS OF GOVERNMENTAL ACTIVITIES	\$ (944)	\$ 7,194

See accompanying notes to the financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

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 Assets 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.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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, 2012 and 2011.

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

During February 2009, Governmental Accounting Standards Board (GASB) issued Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Corporation is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Corporation implemented Statement No. 54, effective for the fiscal year ending December 31, 2011.

During June 2010, GASB issued Statement No. 59 - *Financial Instruments Omnibus*. This statement's objective is to improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Corporation implemented Statement No. 59, effective for the fiscal year ending December 31, 2011. The adoption of Statement No. 59 had no effect on the Corporation's financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, with retroactive application for the fiscal year ended December 31, 2011. The adoption of Statement No. 60 had not 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 application for the fiscal year ended December 31, 2011. The adoption of Statement no. 62 had no affect on the Corporation's financial statements.

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, 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, 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.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

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(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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. 61 - *The Financial Reporting Entity - an amendment of GASB Statements No. 14 and No. 34*, effective for the year ending December 31, 2013; GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective for the year ending December 31, 2013; and GASB Statement No. 66 - *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and 62*, effective for the year ending December 31, 2013; GASB Statement No. 67 - *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, effective for the year ending December 31, 2013; GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; effective for the year ending December 31, 2014; and, GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*; effective for the year ending December 31, 2014.

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 assets of governmental activities:

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

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

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.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

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

3. Long-term debt transaction differences:

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 Assets.

NOTE 3 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property, equipment and depreciation consist of the following:

	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	\$ -	\$ -	\$ -	\$ -
	Year ended December 31, 2011			
	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	\$ -	\$ -	\$ -	\$ -

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

NOTE 4 - EQUITY CLASSIFICATIONS

A. Entity-wide Statements

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

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 Net Assets - Restricted net assets 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 assets at December 31, 2012 and 2011.

Unrestricted Net Assets - Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2012 and 2011, the Corporation had not designated any unrestricted net assets.

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, 2012 and 2011.

creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. At December 31, 2012 and 2011 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, 2012 and 2011 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, 2012 or 2011.

Unassigned - includes all other General Fund net assets 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 \$15,068 and matching contributions of \$51,000 in the year ended December 31, 2012.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(Continued)

NOTE 6 - PROJECT EXPENSES

The Corporation incurred project expenses related to the development of the Northern Chautauqua regional water system in the amount of \$45,119 during the year ended December 31, 2012.

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 Corporation paid \$30,744 and \$0 for contracted financial services during the years ended December 31, 2012 and 2011, respectively. The future minimum payments for financial services under the contract are \$10,248.

NOTE 8 - EVALUATION OF SUBSEQUENT EVENTS

Events and transactions which have occurred from December 31, 2012 through **March 15, 2013**, 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.

**CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Significant Deficiencies Not Considered Material Weaknesses:

2012-1 - 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 31, 2012.

Criteria: The organization should review and accept all proposed note disclosures and draft financial statements.

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 standard considers assistance in preparing financial statements and related notes to be indicative of a material weakness in the internal control over financial reporting.

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.

