

**CHADWICK BAY
REGIONAL DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

**YEARS ENDED
DECEMBER 31, 2011, 2010 AND 2009**

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INDEPENDENT AUDITOR'S REPORT

June 15, 2012

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

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, 2011, 2010 and 2009, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. 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 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 audit and the report of other auditors provide a reasonable basis for our 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 Chadwick Bay Regional Development Corporation, as of December 31, 2011, 2010 and 2009, and the respective changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information 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.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

**CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 year ended December 31, 2011. This document should be read in conjunction with the Corporation's financial statements which begin on page 5.

FINANCIAL HIGHLIGHTS

- The Corporation's net assets increased \$7,194 as a result of the year 2011 activity decreased \$17,713 as a result of the year 2010 activity and increased \$23,965 as a result of the year 2009 activity.

USING THIS REPORT

The annual report consists of a series of financial statements. The statement of net assets 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 AGENCY AS A WHOLE

The Statement of Net Assets and Statement of Activities

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

In the statement of net assets and the statement of activities, the Corporation reports all its basic services as governmental activities. These services are primarily economic development.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our discussion and analysis of the Corporation's major 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 AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Agency'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 ASSETS
DECEMBER 31, 2011, 2010 AND 2009

ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 7,998	\$ 17,642	\$ 6,333
Accounts receivable	1,600	-	-
Due from other governments	15,238	-	29,022
Capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 24,836</u>	<u>\$ 17,642</u>	<u>\$ 35,355</u>

LIABILITIES AND NET ASSETS

LIABILITIES:	\$ -	\$ -	\$ -
NET ASSETS:			
Unrestricted net assets	<u>24,836</u>	<u>17,642</u>	<u>35,355</u>
TOTAL NET ASSETS	<u>24,836</u>	<u>17,642</u>	<u>35,355</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,836</u>	<u>\$ 17,642</u>	<u>\$ 35,355</u>

See accompanying notes to financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES:			
Municipal revenues	\$ 22,088	\$ 24,296	\$ 29,022
Refund of prior year expenditures	1,600	-	-
TOTAL REVENUES	<u>23,688</u>	<u>24,296</u>	<u>29,022</u>
EXPENSES:			
General and administrative expenses	6,000	5,500	-
Professional fees	10,494	36,252	4,900
Office expense	-	182	45
Meeting expenses	-	75	112
TOTAL EXPENSES	<u>16,494</u>	<u>42,009</u>	<u>5,057</u>
CHANGE IN NET ASSETS	7,194	(17,713)	23,965
NET ASSETS, beginning of year	<u>17,642</u>	<u>35,355</u>	<u>11,390</u>
NET ASSETS, end of year	<u>\$ 24,836</u>	<u>\$ 17,642</u>	<u>\$ 35,355</u>

See accompanying notes to the financial statements.

**CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
BALANCE SHEETS - GOVERNMENTAL FUNDS
DECEMBER 31, 2011, 2010 AND 2009**

	2011	2010	2009
ASSETS:			
Cash and cash equivalents	\$ 7,998	\$ 17,642	\$ 6,333
Accounts receivable	1,600	-	-
Due from other governments	15,238	-	29,022
TOTAL ASSETS	\$ 24,836	\$ 17,642	\$ 35,355
 FUND BALANCE:			
Unassigned fund balance	\$ 24,836	\$ 17,642	\$ 35,355
TOTAL FUND BALANCE	\$ 24,836	\$ 17,642	\$ 35,355

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, 2011, 2010 AND 2009

	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES:			
Municipal revenue	\$ 22,088	\$ 24,296	\$ 29,022
Refund of prior year expenditures	1,600	-	-
	<u>23,688</u>	<u>24,296</u>	<u>29,022</u>
TOTAL REVENUES			
EXPENDITURES:			
General and administrative expenses	6,000	5,500	-
Professional fees	10,494	36,252	4,900
Office expense	-	182	45
Meeting expenses	-	75	112
	<u>16,494</u>	<u>42,009</u>	<u>5,057</u>
TOTAL EXPENDITURES			
Excess (Deficiency) of Revenues Over Expenditures	7,194	(17,713)	23,965
FUND BALANCE, beginning of year	<u>17,642</u>	<u>35,355</u>	<u>11,390</u>
FUND BALANCE, end of year	<u>\$ 24,836</u>	<u>\$ 17,642</u>	<u>\$ 35,355</u>

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, 2011, 2010 AND 2009**

	2011	2010	2009
TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 24,836	\$ 17,642	\$ 35,355
 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	5,851
Less accumulated depreciation	(5,851)	(5,851)	(5,851)
	-	-	-
 NET ASSETS OF GOVERNMENTAL ACTIVITIES	 \$ 24,836	 \$ 17,642	 \$ 35,355

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, 2011, 2010 AND 2009**

	2011	2010	2009
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENT FUNDS	\$ 7,194	\$ (17,713)	\$ 23,965
 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	\$ 7,194	\$ (17,713)	\$ 23,965

See accompanying notes to the financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Chadwick Bay Regional Development Corporation (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 more significant of the Corporation's 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 non 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, except those that are fiduciary.

2. Fund financial statements:

The fund statements provide information about the Corporation's funds, including fiduciary funds (when applicable). 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
YEAR ENDED DECEMBER 31, 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, 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 cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the Corporation's investment policies. Resources must be deposited in 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.

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, 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, with retroactive application for the fiscal years ended December 31, 2010 and 2009.

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, with retroactive application for the fiscal years ended December 31, 2010 and 2009. The adoption of Statement No. 59 had not effect on the Corporation's financial statements.

CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(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. 57 - *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, effective for the year ending December 31, 2012; GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the year ending December 31, 2012; 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; and, GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for the year ending December 31, 2012; GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the year ending December 31, 2012; GASB Statement No. 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012; 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.

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:

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.

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

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

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 Assets.

NOTE 3 - PROPERTY, EQUIPMENT AND DEPRECIATION

Property, equipment and depreciation consist of the following:

	Year ended December 31, 2011			
	2010 Ending Balance	Additions	Retirements/ Reclassifications	
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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Year ended December 31, 2010			
	2009 Ending Balance	Additions	Retirements/ Reclassifications	2010 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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 3 - PROPERTY, EQUIPMENT AND DEPRECIATION, continued

	Year ended December 31, 2009			2009 Ending Balance
	2008 Ending Balance	Additions	Retirements/ Reclassifications	
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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2011, 2010 and 2009.

Unrestricted Net Assets - Designations are not legally required restrictions, but are segregated for a specific purpose. At December 31, 2011, 2010 and 2009, 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, 2011, 2010 and 2009.

grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. At December 31, 2011, 2010 and 2009 the Corporation does not have any restricted fund balances.

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

NOTE 4 - EQUITY CLASSIFICATIONS, continued

B. Fund Statements, continued

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, 2011, 2010 and 2009 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, 2011, 2010 or 2009.

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 - EVALUATION OF SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events through June 15, 2012, the date which the financial statements were available to be issued. No significant subsequent event have been identified that would require adjustment of or disclosure in the accompanying financial statements.



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

70 East Main Street / Fredonia, New York 14063 / 716-672-4770 / Fax 716-679-1512

**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**

June 15, 2012

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

We have audited 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, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated June 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. Finding 2011-2.

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 2011-1.

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*.

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.

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

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

**CHADWICK BAY REGIONAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Significant Deficiencies Not Considered Material Weaknesses:

2011-1 - 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, 2011.

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.

Significant Deficiencies Considered Material Weaknesses:

2011-2 - Segregation of Duties

Condition: The auditors observed that due to the limited number of personnel, the same individual was responsible for initiating all cash disbursements, check signing, and reviewing the bank statements.

Criteria: To the extent possible, the functions of physical custody, processing, approving and recording of transactions should be segregated to serve as a check and balance on integrity and to maintain the best control system possible.

Effect: The internal control system is compromised when an individual has access to and control over multiple financial tasks.

Recommendation: We recommend that the Corporation separate some of these duties between the Executive Director and the Board to ensure that internal control procedures are in place to promote the safeguarding of assets.

Management Response: Due to the size of the Corporation, segregation of duties is not easily attainable. The Corporation will attempt to separate some of these duties between the Executive Director and the Board.