

ORLEANS LAND RESTORATION
CORPORATION

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

ORLEANS LAND RESTORATION CORPORATION

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TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD, STE 115
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Orleans County Land Restoration Corporation:

We have audited the accompanying statements of financial position of the Orleans County Land Restoration Corporation as of December 31, 2011 and 2010, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 16, 2012 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant 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 on 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 16, 2012

ORLEANS LAND RESTORATION CORPORATION
 Statements of Financial Position
 December 31, 2011 and 2010

	<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:			
Cash		\$ 141,048	50,011
Prepaid expenses		5,300	-
Loans receivable, current portion		<u>85,467</u>	<u>81,765</u>
Total current assets		231,815	131,776
Loans receivable, less current portion, net of allowance for uncollectible accounts of \$350,000 in 2011 and \$375,000 in 2010		<u>358,296</u>	<u>462,075</u>
Total assets		<u>\$ 590,111</u>	<u>593,851</u>
<u>Net Assets</u>			
Temporarily restricted net assets		590,111	593,851
Contingency (note 4)		<u> </u>	<u> </u>
Total net assets		<u>\$ 590,111</u>	<u>593,851</u>

See accompanying notes to financial statements.

ORLEANS LAND RESTORATION CORPORATION
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue:		
Grant revenue	\$ 216,000	250,000
Interest revenue	<u>11,181</u>	<u>9,383</u>
Total revenue	<u>227,181</u>	<u>259,383</u>
Expenses:		
Professional fees	16,521	8,405
Legal	25,851	6,997
Consulting	35,136	7,760
Accounting	4,710	1,520
Miscellaneous	757	566
Forgiveness of deferred loans receivable	100,000	375,000
Transfer to related party	<u>47,946</u>	<u>-</u>
Total expenses	<u>230,921</u>	<u>400,248</u>
Decrease in net assets	(3,740)	(140,865)
Net assets at beginning of year	<u>593,851</u>	<u>734,716</u>
Net assets at end of year	<u>\$ 590,111</u>	<u>593,851</u>

See accompanying notes to financial statements.

ORLEANS LAND RESTORATION CORPORATION
 Statements of Cash Flows
 Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (3,740)	(140,865)
Forgiveness of deferred loans receivable	100,000	375,000
Adjustment to reconcile decrease in net assets to net cash provided by operating activities:		
Changes in:		
Accounts receivable	-	5,217
Prepaid expenses	(5,300)	-
Accounts payable	-	(5,217)
Net cash provided by operating activities	<u>90,960</u>	<u>234,135</u>
Cash flows from investing activities:		
Issuance of loans receivable	(200,000)	(250,000)
Collection of loans receivable	200,077	65,160
Net cash provided by (used in) investing activities	<u>77</u>	<u>(184,840)</u>
Net increase in cash	91,037	49,295
Cash at beginning of year	<u>50,011</u>	<u>716</u>
Cash at end of year	<u>\$ 141,048</u>	<u>50,011</u>

See accompanying notes to financial statements.

ORLEANS LAND RESTORATION CORPORATION

Notes to Financial Statements

December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Orleans Land Restoration Corporation (OLRC) is a non-profit entity incorporated on February 15, 2006 for the purpose of promoting economic development in the County of Orleans, which includes combating community deterioration and blight and to lessen the burdens of government by promoting remediation and reuse of contaminated land.

(b) Basis of Presentation

OLRC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization had only temporarily restricted net assets at December 31, 2011 and 2010.

(c) Cash

For the purposes of the statements of cash flows, OLRC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(d) Notes Receivable and Allowance for Doubtful Loans

Notes receivable are stated at their principal amount outstanding, less an allowance for doubtful loans. Interest income and commitment fees on loans are accrued as earned. The allowance for doubtful loans is established through charges against current operations and is maintained at a level which management considers adequate to provide for potential loan losses based on their evaluation of past loan experience, current economic conditions and known risks in the loan portfolio. Interest is not accrued on notes receivable when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful. In such cases, interest is recognized on a cash basis when collection occurs.

(e) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(f) Subsequent Events

OLRC has evaluated events after December 31, 2011, and through March 16, 2012, which is the date these financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

ORLEANS LAND RESTORATION CORPORATION
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Income Taxes

OLRC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes is reflected in the financial statements. The OLRC has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The OLRC presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the OLRC has taken no uncertain tax positions that require adjustment in its financial statements. U.S. Forms 990 filed by the OLRC are subject to examination by taxing authorities. The OLRC is no longer subject to tax examination for the years ended June 30, 2007 and prior.

(2) Acquisition of Land

In June 2007, OLRC acquired land located in the Village of Medina, County of Orleans, from MCG Intermediate Holdings, Inc. (the Seller) for \$1. In consideration of assuming all liabilities associated with this property, OLRC received a charitable donation of \$30,000 from the Seller. Accordingly, the land is not included on the accompanying statements of financial position as it was acquired at no cost.

(3) Loans Receivable

OLRC has made loans to Brunner International, Inc. (Brunner), Sigma International General Medical Apparatus, LLC (Sigma), and Hinspergers Poly Industries, Inc. (Hinspergers) with funds granted by the United States Department of Housing and Urban Development. At December 31, 2011 and 2010, loans receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Brunner:		
Loan receivable made on December 3, 2009 in the amount of \$484,000 that will be repaid over a seven-year term and will bear interest at 2% per year.	\$ 358,134	424,404
Loan receivable made on December 3, 2009 in the amount of \$250,000 that will be repaid as a lump sum on December 3, 2016 and bears no interest. The balance is anticipated to be forgiven by OLRC at the maturity date.	250,000	250,000

ORLEANS LAND RESTORATION CORPORATION

Notes to Financial Statements, Continued

(3) Loans Receivable, Continued

	<u>2011</u>	<u>2010</u>
Sigma:		
Loan receivable made on August 4, 2010 in the amount of \$125,000 that was to be repaid over a seven-year term and bear interest at 2% per year. This loan was repaid in full on October 31, 2011.	\$ -	119,436
Loan receivable made on August 4, 2010 in the amount of \$125,000 that was to be repaid as a lump sum on September 1, 2017 and bear no interest. The balance was forgiven by OLRC on October 31, 2011.	-	125,000
Hinspergers:		
Loan receivable made on March 31, 2011 in the amount of \$100,000 that will be repaid over a five year term and will bear interest at 2% per year.	85,629	-
Loan receivable made on March 31, 2011 in the amount of \$100,000 that will be repaid as a lump sum on April 1, 2016 and bears no interest. The balance is anticipated to be forgiven by ORLC at the maturity date.	<u>100,000</u>	<u>-</u>
	793,763	918,840
Allowance for uncollectible loans receivable	<u>(350,000)</u>	<u>(375,000)</u>
Total loans receivable	443,763	543,840
Less current portion of loans receivable	<u>(85,467)</u>	<u>(81,765)</u>
Total loans receivable, less current portion	\$ <u>358,296</u>	<u>462,075</u>

(4) Contingency

In September 2006, OLRC and the County of Orleans Industrial Development Agency (COIDA) (the Organizations) jointly entered in to a lease agreement with Western New York Energy, LLC (Energy) to receive rent for the Rail Spur Facility. Beginning in 2007, the Organizations began receiving rent of \$10,000 annually which will continue through August 1, 2015. The 2011 and 2010 rental payments have been made and recorded as revenue by COIDA.

The OLRC is potentially liable for environmental remediation of the land acquired as described in note 2. No accrued liability has been included in the accompanying financial statements, as work has not yet commenced. Management believes that the costs to clean up this site will be approximately equal to rental payments received from Energy and grants awarded to COIDA in the amount of \$135,000. Any costs of the environmental cleanup will be shared between OLRC and COIDA.

ORLEANS LAND RESTORATION CORPORATION

Notes to Financial Statements, Continued

(5) Related Party Transactions

The OLRC has a related party relationship with COIDA and the Orleans County Local Development Corporation (OCLDC). All three entities are managed by the same personnel.

COIDA allocates a portion of its personnel costs to OLRC. These costs amounted to \$12,950 and \$7,760 for the years ended December 31, 2011 and 2010, respectively.

The OLRC also transferred funds to COIDA to pay for mortgage principal and interest on a loan held by COIDA and for repairs to a building owned by COIDA. These transfers amounted to \$47,946 for the year ended December 31, 2011.

(6) Subsequent Event

On January 11, 2012, OLRC and COIDA entered a property ownership agreement with both entities having a 50% interest in four properties previously owned by COIDA. OLRC and COIDA also entered into a loan transaction used to refinance existing mortgages on a portion of the properties and pay off a line of credit held by COIDA. This loan amounted to \$500,000 and is secured by a mortgage lien on the properties. The loan will be repaid over a seven year term and will bear interest at 6% per year. The portion due in 2012 is \$53,935.

COIDA will provide staffing to monitor and manage the properties and shall provide in-kind services. OLRC will be responsible for routine and recurring costs associated with ownership of the properties and will pay debt service with respect to financing on the properties.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE
WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Orleans Land Restoration Corporation:

We have audited the financial statements of Orleans Land Restoration Corporation (the Corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 16, 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

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 opinion 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.

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 significant deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grants, including Investment Guidelines for Public Authorities and the Corporation's Investment Policy, noncompliance with which would 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 that are required to be reported under Government Auditing Standards.

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

Touki & Co., CPAs, P.C.

Williamsville, New York
March 16, 2012