ORLEANS LAND RESTORATION CORPORATION

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

ORLEANS LAND RESTORATION CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Orleans County Land Restoration Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Orleans County Land Restoration Corporation (the Corporation) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net assets and cash flows for years then ended, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from 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 Corporation'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 Corporation'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orleans County Land Restoration Corporation as of December 31, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated , 2013, 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, and grant agreements and other matters, including compliance with investment guidelines. 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 internal control over financial reporting or on 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.

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Williamsville, New York
, 2013

ORLEANS LAND RESTORATION CORPORATION
Statements of Financial Position
December 31, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash	$ 116,407	141,048
Interest receivable	148	-
Prepaid expenses	6,814	5,300
Loans receivable, current portion	136,401	85,467
Total current assets	259,770	231,815
Loans receivable, less current portion, net of allowance for doubtful loans of $585,000 in 2012 and $350,000 in 2011	437,271	358,296
Land and site improvements	521,370	-
Property held for sale	87,500	-
Total assets	$ 1,305,911	590,111
Liabilities and Net Assets		
Current liabilities:		
Accounts payable:		
Operations	25,912	
Related party	1,627	-
Total accounts payable	27,539	-
Current installments of note payable	57,184	-
Total current liabilities	84,723	-
Note payable, excluding current installments	388,881	-
Total liabilities	473,604	-
Temporarily restricted net assets	832,307	590,111
Contingency (note 4)		
Total liabilities and net assets	$ 1,305,911	590,111

See accompanying notes to financial statements.

ORLEANS LAND RESTORATION CORPORATION
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2012 and 2011

	2012	2011
Revenue:		
Grant revenue	$ 545,243	216,000
Interest revenue	12,652	11,181
Total revenue	557,895	227,181
Expenses:		
Professional fees	72,997	16,521
Legal	23,847	25,851
Consulting	42,998	35,136
Accounting	6,975	4,710
Occupancy	10,443	-
Dues and subscriptions	1,000	-
Repairs and maintenance	1,318	-
Interest	28,382	-
Miscellaneous	1,609	757
Forgiveness of deferred loans receivable	235,000	100,000
Transfer to related party	-	47,946
Total expenses	424,569	230,921
Increase (decrease) in temporarily restricted net assets before loss on impairment	133,326	(3,740)
Loss on impairment	(117,526)	-
Increase (decrease) in temporarily restricted net assets	15,800	(3,740)
Temporarily restricted net assets at beginning of year	590,111	593,851
Transfer (note 6)	226,396	-
Temporarily restricted net assets at end of year	$ 832,307	590,111

See accompanying notes to financial statements.

ORLEANS LAND RESTORATION CORPORATION
Statements of Cash Flows
Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in temporarily restricted net assets	$ 15,800	(3,740)
Adjustment to reconcile increase (decrease) in temporarily restricted net assets to net cash provided by operating activities:		
Forgiveness of deferred loans receivable	235,000	10,000
Loss on impairment	117,526	-
Changes in:		
Interest receivable	(148)	-
Prepaid expenses	(1,514)	(5,300)
Accounts payable	27,539	-
Net cash provided by operating activities	394,203	960
Cash flows from investing activities:		
Issuance of loans receivable	(485,000)	(200,000)
Collection of loans receivable	120,091	200,077
Net cash provided by (used in) investing activities	(364,909)	77
Cash flows from financing activities - payments on note payable	(53,935)	-
Net increase in cash	(24,641)	1,037
Cash at beginning of year	141,048	50,011
Cash at end of year	$ 116,407	51,048
Supplemental schedule of cash flow information:		
Non-cash investing and financing activities - transfer of net assets (note 6):		
Land and site improvements	521,370	-
Property held for sale, net	205,026	-
Note payable	(500,000)	-
Net assets transferred	$ 226,396	-
Cash paid for interest	$ 28,382	-

See accompanying notes to financial statements.

(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. OLRC had only temporarily restricted net assets at December 31, 2012 and 2011.

(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) Capitalization

Capital assets are recorded at cost. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal, the resulting gains and losses are reflected in the statements of revenue, expenses and changes in net assets.

(f) Impairment of Property Held for Sale

OLRC reviews its property held for sale for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss of $117,526 has been recognized by OLRC for the year ended December 31, 2012 (note 7).

(1) Summary of Significant Accounting Policies, Continued

(g) 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.

(h) 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 December 31, 2008 and prior.

(i) Subsequent Events

OLRC has evaluated events after December 31, 2012, and through , 2013, 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.

(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), Hinspergers Poly Industries, Inc. (Hinspergers), Intergrow Greenhouses, Inc. (Intergrow), and Liberty Fresh Farms, Inc. (Liberty) with funds granted by the United States Department of Housing and Urban Development. At December 31, 2012 and 2011, loans receivable consisted of the following:

(3) Loans Receivable, Continued

	2012	2011
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.	$ 290,526	358,134
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
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.	67,770	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 bear no interest. The balance is anticipated to be forgiven by OLRC at the maturity date.	100,000	100,000
Intergrow:		
Loan receivable made on February 15, 2012 in the amount of $150,000 that will be repaid over a five year term and will bear interest at 3% per year.	126,534	-
Loan receivable made on February 15, 2012 in the amount of $150,000 that will be repaid as a lump sum on March 1, 2017 and bears no interest. The balance is anticipated to be forgiven by OLRC at the maturity date.	150,000	-
Liberty:		
Loan receivable made on March 9, 2012 in the amount of $100,000 that will be repaid over a five year term and will bear interest at 2% per year.	88,842	-

(3) Loans Receivable, Continued

	2012	2011
Liberty, Continued:		
Loan receivable made on March 9, 2012 in the amount of $85,000 that will be repaid as a lump sum on April 1, 2017 and bears no interest. The balance is anticipated to be forgiven by OLRC at the maturity date.	$ 85,000	-
	1,158,672	793,763
Allowance for doubtful loans receivable	(585,000)	(350,000)
Total loans receivable	573,672	443,763
Less current portion of loans receivable	(136,401)	(85,467)
Total loans receivable, less current portion	$ 437,271	358,296

There are no past due loans or loans on nonaccrual status at December 31, 2012.

(4) Note Payable

Note payable issued by Statewide Zone Capital Corporation on January 11, 2012 in the amount of $500,000. The note will be repaid over a seven year term and will bear interest at 6% per year for five years and then be adjusted to a fixed rate based on Treasury Constant Maturities as published in Federal Reserve Statistical Release H.15 plus 400 basis points. The note is secured by a mortgage lien on the OLRC's properties.	$ 446,065
Less current installments	(57,184)
Note payable, less current installments	$ 388,881

(5) 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.

(6) 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 $12,036 and $12,950 for the years ended December 31, 2012 and 2011, respectively. The amount due to COIDA was $1,627 at December 31, 2012.

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.

On January 11, 2012, OLRC and COIDA entered a property ownership agreement with both entities having a 50% interest in properties previously owned by COIDA. As part of the agreement, OLRC and COIDA also entered into a loan transaction with the cash used by COIDA to refinance existing mortgages on a portion of the properties and payoff a line of credit. This loan amounted to $500,000 (note 4). 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 the loan. The assets transferred between COIDA and OLRC with respect to this agreement were as follows:

Land and site improvements	$ 521,370
Property held for sale	205,026
Note payable	(500,000)
	$ 226,396

(7) Loss on Impairment

Accounting Standards Codification (ACS) No. 360 - "Accounting for the Impairment or Disposal of Long-Lived Assets" requires that impaired assets be recorded at the lower of carrying value of fair value, less costs to sell. In accordance with this statement, certain long-lived assets of OLRC, which consist of a warehouse building and land, have been recorded at fair value, which is the lower of carrying value or fair value, less costs to sell. The fair value for the property was determined at the amount of the counter offer made to a prospective buyer by OLRC in negotiations for the sale of the property in November 2012. In connection with this valuation, a loss on impairment has been recognized amounting to $117,526 for the year ended December 31, 2012.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTIN 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, 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, the financial statements of Orleans Land Restoration Corporation (the Corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated , 2013.

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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. 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 of findings as 2012-1 to be a material weakness.

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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, including Investment Guidelines for Public Authorities and the Corporation's investment policy, 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 Findings

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

Williamsville, New York
, 2013

ORLEANS LAND RESTORATION CORPORATION

Schedule of Findings

Year ended December 31, 2012

Finding 2012-1

Accounting Controls

The Corporation is without a financial accountant that can accurately initiate, authorize, or review accounting transactions in the financial records or adequately prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. Audit adjustments, approved by management, were required to correct the accounting records of the Corporation for the financial statements to be prepared in accordance with accounting principles generally accepted in the United States of America. The audit adjustments resulted in a net impact on the statement of revenue, expenses and changes in net assets of approximately $350,000.

Recommendation

We recommend that the Corporation continue to review and improve its accounting records with the assistance of a consultant with adequate accounting experience and knowledge to periodically assist the Chief Financial Officer in reviewing financial transactions and financial statements.

Management's Corrective Action

Management plans to review in detail the deficiencies in the accounts with the Corporation's consultant. After the review, management will request a plan that will eliminate any deficiencies from recurring in 2013.