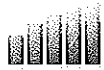


**HUDSON DEVELOPMENT CORPORATION
AUDIT REPORT
AND FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

HUDSON DEVELOPMENT CORPORATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hudson Development Corporation

We have audited the accompanying statements of financial position of Hudson Development Corporation (a nonprofit corporation) as of September 30, 2013 and 2012, the related statements of activities and changes in net assets and cash flows for the 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 from 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hudson Development Corporation as of September 30, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Shallo, Galluscio, Bianchi & Fucito, CPAs, P.C.

SHALLO, GALLUSCIO, BIANCHI & FUCITO
CERTIFIED PUBLIC ACCOUNTANTS, P.C.
Cairo, New York
December 20, 2013

HUDSON DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2013 AND 2012

ASSETS

	Notes	September 30,	
		2013	2012
Current Assets			
Cash on hand and in Bank	B	\$ 407,775	\$ 445,041
Accounts Receivable	E	-	15,375
Loans Receivable		6,144	15,912
Lawsuit Settlement Receivable	F	-	13,077
Assets Held for Sale	H	-	283,832
Total Current Assets		413,919	773,237
Property & Equipment - Net	B & J	289,175	299,301
Total Assets		\$ 703,094	\$ 1,072,538

LIABILITIES AND NET ASSETS

Current Liabilities			
Accounts Payable		\$ 8,200	\$ 12,493
Payroll Liabilities		1,804	2,599
Deferred Revenue - HRBT Foundation Grant	K	24,850	31,950
Deferred Revenue - HRG III	G	-	5,299
Total Current Liabilities		34,854	52,341
Long Term Liabilities			
Total Long Term Liabilities		-	-
Total Liabilities		34,854	52,341
Net Assets			
Unrestricted	D		
Undesignated		668,240	1,020,197
Temporarily Restricted		-	-
Permanently Restricted		-	-
Total Net Assets		668,240	1,020,197
Total Liabilities and Net Assets		\$ 703,094	\$ 1,072,538

See auditor's report and accompanying notes to financial statements.

HUDSON DEVELOPMENT CORPORATION
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Unrestricted Net Assets	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Revenues, Gains, and Other Support			
Waterfront Project Revenue	J	\$ 9,919	\$ 2,980
HRBT Foundation Grant Revenue	K	7,100	10,726
NYSERDA Grant Revenue	L	-	7,500
Other Program and Grant Revenues		33,686	1,192
Interest Income from Loans Receivable		823	1,630
Interest Income from Bank		2,143	1,831
Recovery of Bad Debt	G	5,299	8,986
Rent Income	M	7,200	6,900
Miscellaneous Income		125	10,305
Total Unrestricted Revenues, Gains, and Other Support		<u>66,295</u>	<u>52,050</u>
 Expenses			
Program Services		<u>130,978</u>	105,621
Supporting Services			
Management and General		<u>287,274</u>	314,549
Total Supporting Services		<u>287,274</u>	314,549
Total Expenses		<u>418,252</u>	<u>420,170</u>
 Increase (Decrease) in Unrestricted Net Assets		 <u>(351,957)</u>	 <u>(368,120)</u>
 Increase (Decrease) in Temporarily Restricted Net Assets		 -	 -
 Increase (Decrease) in Permanently Restricted Net Assets		 -	 -
 Increase (Decrease) in Total Net Assets		 <u>(351,957)</u>	 <u>(368,120)</u>
 Total Net Assets at Beginning of Year		 <u>1,020,197</u>	 <u>1,388,317</u>
 Total Net Assets at End of Year		 <u>\$ 668,240</u>	 <u>\$ 1,020,197</u>

See auditor's report and accompanying notes to financial statements.

HUDSON DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Cash Flows Provided By (Used By) Operating Activities		
Increase (Decrease) in net assets	\$ (351,957)	\$ (368,120)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	10,126	9,944
Bad Debt Expense	13,077	-
(Gain)/Loss on Disposal of Property	234,825	270,770
(Increase) Decrease in operating assets:		
Accounts Receivable	15,375	12,838
Loans Receivable	9,768	13,094
Increase (Decrease) in operating liabilities:		
Accounts Payable	(4,293)	(31,400)
Payroll Liabilities	(796)	2,599
Advance Rent Received	-	(1,500)
Deferred Revenue - HRBT Foundation Grant	(12,399)	7,167
Deferred Revenue - HRG III	-	(8,986)
Cash Flows Provided By (Used By) Operating Activities	(86,274)	(93,594)
 Cash Flows Provided By (Used By) Investing Activities		
Disposition of Asset Held for Resale	49,640	240,902
Assets Held for Resale Expenditures	(632)	(18,513)
Acquisition of Property & Equipment - Leasehold Improvements	-	(14,588)
Cash Flows Provided By (Used By) Investing Activities	49,008	207,801
 Cash Flows Provided By (Used By) Financing Activities		
Cash Flows Provided By (Used By) Financing Activities	-	-
 Change in Cash	(37,266)	114,207

See auditor's report and accompanying notes to financial statements.

HUDSON DEVELOPMENT CORPORATION
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Change in Cash - from prior page	\$ (37,266)	\$ 114,207
Cash Balance - October 1, 2012 and 2011	445,041	330,834
Cash Balance - September 30, 2013 and 2012	\$ 407,775	\$ 445,041
Supplemental Data		
Interest Paid	\$ -	\$ -
Income Taxes Paid	\$ -	\$ -

Noncash Transactions

During the year ended September 30, 2013 the Organization recognized a loss on property held for resale in the amount of \$234,825. This amount is included as an expense in the Schedules of Functional Expenses.

During the year ended September 30, 2012 the Organization recognized a loss on property held for resale in the amount of \$270,770. This amount is included as an expense in the Schedules of Functional Expenses.

See auditor's report and accompanying notes to financial statements.

HUDSON DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE A: Organization

Hudson Development Corporation (the Organization) is a not-for-profit economic development organization located in Hudson, New York. The Organization provides funds and loans to local businesses that are to be used for economic expansion, business expansion, and building rehabilitation.

NOTE B: Summary of Significant Accounting Policies

Basis of Accounting Hudson Development Corporation (HDC) prepares its financial statements using the accrual method of accounting whereby income and expenses are recorded when earned or incurred.

Property & Equipment Property and Equipment are stated at cost. Costs for additions, improvements, and major renewals that extend the life of an asset are capitalized, whereas expenditures for maintenance and repairs are charged to operations when incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation Depreciation is provided for both financial reporting and income tax purposes using the straight-line method over the estimated useful lives of the respective assets. Depreciation expense for the years ended September 30, 2013 and 2012 was \$10,126 and \$9,944, respectively.

Income Taxes Hudson Development Corporation is exempt from income taxes under Internal Revenue Service Code Section 501(c)(3). Therefore, income tax expense has not been provided for in these financial statements.

Cash and Cash Equivalents For purposes of the statements of cash flows the Organization considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. For the years ended September 30, 2013 and 2012, the Organization did not own any highly liquid investments other than cash. Cash balances at September 30, 2013 and 2012 were \$407,775 and \$445,041, respectively.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

HUDSON DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE C: Related Parties

During the year ended September 30, 2013 the Organization, in conjunction with the related entity Hudson Community Development and Planning Agency (HCD&PA) utilized the services of an Executive Director and external bookkeepers. All payments for these services were made to individuals by HDC with reimbursements received from HCD&PA for the value of such services utilized by the related entity. HCD&PA related services were not considered expenditures. Amounts received as reimbursement from HCD&PA for such payments were not considered revenue. The total amount of transactions for HCD&PA's portion of the Executive Director and bookkeeper expenditures for the year ended September 30, 2013 was \$45,763.

NOTE D: Financial Statement Presentation

Financial statement presentation follows the guidance of the Not for Profit Entities Topic of the Financial Accounting Standards Board Accounting Standards Codification.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets represent resources whose use is not limited or restricted by donors. Resources are reported as unrestricted when the limitations placed on their use are no more specific than the broad limits of the Organization's purpose.

Temporarily restricted net assets represent resources whose use is limited only by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted net assets are reclassified to unrestricted as their time and purpose requirements are met.

Permanently restricted net assets represent resources that must be maintained permanently. Permanently restricted net assets are generally restricted indefinitely.

The Organization only had unrestricted net assets during the years ended September 30, 2013 and 2012.

NOTE E: Accounts Receivable

As of September 30, 2013, the Organization carries no Accounts Receivable. Accounts receivable as of September 30, 2012 in the amount of \$15,375 represented various amounts due to the Organization for grants related to Waterfront projects.

HUDSON DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE F: Lawsuit Settlement Receivable

During the year ended September 30, 2006 there were fraudulent disbursements in the amount of \$13,685 on behalf of a board member who has since been dismissed from the board. The Organization won a lawsuit settlement for repayment of these disbursements during July 2007, which was set to be repaid beginning January 2, 2008 and completed by January 2, 2011.

The Organization received \$608 as repayment of this receivable during the year ended September 30, 2008, lowering the amount of receivable to \$13,077. There has been no repayment of this receivable since that time period.

The Organization resolved to write off the Lawsuit Settlement Receivable as uncollectible as of September 30, 2013. This resolution eliminated the receivable and increased Bad Debt Expenses by \$13,077.

NOTE G: Hudson Restoration Group and Housing Resources Real Estate Holding Corp.

During the month of October 2000, the Organization received \$223,000 to be applied against delinquent interest and principal amounts due from Hudson Restoration Group III (HRG). The Organization also received two new loans from Housing Resources Real Estate Holding Corp. (HRRE) (\$100,000) and HRG (\$50,000) to be applied against the same debt receivables. The \$223,000 and two new loans received by the Organization totaled approximately seventy-one percent of the total receivables due from HRG. The balance of the total amounts due from HRG (\$150,781.29) was removed from the receivables, as well as all related bad debt reserves. The transactions during the month of October 2000 also resulted in recovery of bad debt income. The total recovery of bad debt income on the date of transaction was \$128,934.

The transactions resulted in recognition of deferred income for \$150,000, of which \$100,000 was due from HRRE and \$50,000 was due from HRG. The Organization will recognize this income as recovery of bad debt based on one hundred percent (100%) of the principal payments received from each loan.

Payments from HRG are received based on an amortization schedule calculated using an annual interest rate of six percent (6.00%) for two hundred ninety-eight (298) months. There will be no prepayment penalty associated with this receivable. During the years ended September 30, 2013 and 2012 the Organization received \$5,299 and \$8,986, respectively, in principal payments from HRG, all of which was recognized as recovery of bad debt. This loan is considered paid in full as of the year ended September 30, 2013.

During the year ended September 30, 2004 HRRE's obligation to HDC was considered paid in full.

HUDSON DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE H: Assets Held for Sale

As of September 30, 2011 Assets Held for Sale totaling \$776,991 consisted of several lots of property in Hudson, New York and real property and buildings located at 57-59 North Front Street, also in Hudson New York.

During the year ended September 30, 2012 additional costs of \$18,513 were incurred on the North Front Street property. Also during the year ended September 30, 2012 two of the three parcels located at North Front Street were sold netting \$240,902 after closing costs. The Organization recognized a loss on the sale of this property for \$270,770. Following the sale of the North Front Street property the total Assets Held for Sale as of September 30, 2012 was \$283,832.

During the year ended September 30, 2013 the remaining parcel was sold netting \$49,639 after closing costs. The Organization recognized a loss on the sale of this property for \$234,825. As of September 30, 2013, the balance of the Assets Held for Sale is \$0.

NOTE I: Property & Equipment

During the year ended September 30, 2012 the Organization incurred expenditures for the improvement of property known as "Washington Hose Property". The Organization relocated its operations to this facility during the year ended September 30, 2011 after nearly all renovations were complete. As of September 30, 2013 all expenditures related to the leasehold improvements have been expended. Below is a schedule of Property and Equipment as of September 30, 2013 and 2012:

Property & Equipment Asset	2013	2012
Leasehold Improvements	\$ 291,883	\$ 291,883
Furniture & Fixtures	19,802	19,802
Less: Accumulated Depreciation	(22,510)	(12,384)
Totals	\$ 289,175	\$ 299,301

NOTE J: Waterfront Projects

The Organization entered into an agreement with the City of Hudson to expend funds related to the improvement of the local waterfront area known as the Local Waterfront Revitalization Program (LWRP). The City of Hudson secured a grant from the Department of State for a total of \$150,000 of allowable reimbursable expenditures. During the year ended September 30, 2013 the Organization recognized \$1,775 as revenue. No revenue or expenditures were recognized for this grant during the prior year ended September 30, 2012. As of September 30, 2013 all amounts due to the Organization have been received. This grant is considered fully expended with no additional reimbursements anticipated.

HUDSON DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE J: Waterfront Projects - continued

The Organization entered into a second agreement with the City of Hudson to expend funds related to the improvement of the local waterfront area. The City secured a grant from the Environmental Protection Fund and reimburses the Organization for expenditures related to improvement of the waterfront. During the year ended September 30, 2013 the Organization recognized \$8,144 as revenue. No revenue was recognized for this grant during the prior year ended September 30, 2012. As of September 30, 2013 all amounts due to the Organization have been received. This grant is considered fully expended with no additional reimbursements anticipated.

During the year ended September 30, 2009 the Organization entered into a third agreement with the City of Hudson to expend funds related to the improvement of the local waterfront docks. The City had secured a grant from New York State and reimbursed the Organization for 100% of qualified expenditures up to the amount of \$250,000 related to the improvement of these waterfront docks. During the year ended September 30, 2012 the Organization recognized \$2,980 as revenue. As of September 30, 2012 all amounts due to the Organization had been received. This grant is considered fully expended with no additional reimbursements anticipated.

NOTE K: HRBT Foundation Grant

The Organization secured a \$500,000 grant from Hudson River Bank and Trust Foundation (HRBTF) to originally be paid to the Organization in the amount of \$8,333 per month for sixty (60) months beginning February 2008. HRBTF reserved the right to change the terms of contributions to the Organization. The grant must be used for programming and improvements of the Youth Center located within the City of Hudson. HRBTF will oversee the use of such funds and determine if the funds are utilized according to the criteria set forth by HRBTF.

During the year ended September 30, 2012 the Organization received a total of \$17,893 in grant funds. The total qualified expenditures and adjustments to revenue recognized during the year ended September 30, 2012 was \$10,726. Revenue recognized from this grant also totaled \$10,726.

For the year ended September 30, 2013, the total qualified expenditures and adjustments to revenue were \$7,100. Revenue recognized from this grant also totaled \$7,100.

Additional amounts received totaling \$24,850 and \$31,950, respectively, are stated on the balance sheet as a current liability, Deferred Revenue – HRBT Foundation Grant, and as of September 30, 2013 and 2012, have not been expended.

HUDSON DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE L: NYSERDA Grant

During the year ended September 30, 2011 the Organization entered into an agreement with the City of Hudson to expend funds related to an energy audit of City properties. The City secured a grant from New York State Energy Research Development Authority (NYSERDA) for a total of \$30,000 of allowable reimbursable expenditures. During the year ended September 30, 2012 the Organization recognized \$7,500, as revenue and expenditures. As of September 30, 2012 all amounts due to the Organization had been received. This grant is considered fully expended with no additional reimbursements anticipated.

NOTE M: Rent Income

During the year ended September 30, 2011 the Organization entered into an agreement to lease storage space of the property known as "KAZ". The terms of the lease were month to month at a rate of \$500 through December 31, 2011. Beginning with January 1, 2012 the monthly rent is \$600. For the years ended September 30, 2013 and 2012 the Organization recognized \$7,200 and \$6,900, respectively, as rent income.

NOTE N – Contingencies

HDC is subject to litigation in its normal course of operations and carries insurance related to such possibilities. Presently, HDC is not subject to any matters that require the recognition of a liability in the financial statements.

NOTE O – Subsequent Events

Events that occur after the date of the Statements of Financial Position but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the date of the Statements of Financial Position are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the date of the Statement of Financial Position require disclosure in the accompanying notes. Management evaluated the activity of the Organization through December 20, 2013 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

HUDSON DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE P – Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of investments. The Organization places its investments with financial institutions and limits the amount of credit exposure to any one financial institution.

The Federal Depository Insurance Corporation (FDIC) provides insured coverage for cash accounts in member financial institutions up to \$250,000 per depositor. This coverage was effective as of and for the years ended September 30, 2013 and 2012. As of September 30, 2013 and 2012 the Organization did not have any cash accounts which were in excess of FDIC limits.

HUDSON DEVELOPMENT CORPORATION
 STATEMENTS OF FUNCTIONAL EXPENSES
 FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

SCHEDULES OF FUNCTIONAL EXPENSES

Functional Expenses	Program Services	Management and General	2013	2012
Bad Debt Expense	\$ -	\$ 13,077	\$ 13,077	\$ -
Bookkeeping and Audit Fees	-	15,776	15,776	19,111
Community Development Expenses	24,041	-	24,041	22,265
Community Program Expenses	-	-	-	1,412
Consultants and Contractual Expenses	11,212	551	11,763	43,943
Depreciation Expense	-	10,126	10,126	9,944
Dues and Membership Expense	-	397	397	267
Gross Payroll Expense	26,233	-	26,233	10,789
HRBT Foundation Grant Expenses	8,491	-	8,491	4,180
Insurance Expense	-	9,500	9,500	8,862
Loss on Sale of Property	-	234,825	234,825	270,770
Miscellaneous Expense	-	260	260	275
NYSERDA Grant Expense	-	-	-	7,500
Office Expenses	804	804	1,608	3,157
Other Grant Expenses	-	-	-	5,625
Payroll Tax Expenses	4,614	-	4,614	2,098
Property Operating Expenses	55,583	-	55,583	314
Utilities Expense	-	1,958	1,958	2,827
Waterfront Expenses	-	-	-	6,831
Total Functional Expenses	\$ 130,978	\$ 287,274	\$ 418,252	\$ 420,170

See auditor's report and accompanying notes to financial statements.