HUDSON DEVELOPMENT CORPORATION
AUDIT REPORT
AND FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

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To the Board of Directors of
Hudson Development Corporation

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of Hudson Development Corporation (a nonprofit organization) as of September 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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. 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 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 Hudson Development Corporation as of September 30, 2012 and 2011, 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.

These financial statements include certain prior-year summarized comparative information in the Statements of Functional Expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2011, from which the summarized information was derived.

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December 19, 2012

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HUDSON DEVELOPMENT CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2012 AND 2011

ASSETS

	Notes	September 30, 2012	September 30, 2011
Current Assets			
Cash on hand and in Bank	B	**$ 445,041**	$ 330,834
Accounts Receivable	E & K	**15,375**	28,213
Loans Receivable		**15,912**	29,006
Lawsuit Settlement Receivable	F	**13,077**	13,077
Assets Held for Sale	H	**283,832**	776,991
Total Current Assets		**773,237**	1,178,121
Property & Equipment - Net	B, I & J	**299,301**	294,657
Total Assets		**$ 1,072,538**	$ 1,472,778

LIABILITIES AND NET ASSETS

	Notes	2012	2011
Current Liabilities			
Accounts Payable		**$ 12,493**	$ 43,893
Payroll Liabilities		**2,599**	-
Advance Rent Received	N	**-**	1,500
Deferred Revenue - HRBT Foundation Grant	L	**31,950**	24,783
Deferred Revenue - HRG III	G	**5,299**	4,311
Total Current Liabilities		**52,341**	74,487
Long Term Liabilities			
Deferred Revenue - HRG III	G	**-**	9,974
Total Long Term Liabilities		**-**	9,974
Total Liabilities		**52,341**	84,461
Net Assets	D		
Unrestricted			
Undesignated		**1,020,197**	1,378,613
Board Designated	J	**-**	9,704
Temporarily Restricted		**-**	-
Permanently Restricted		**-**	-
Total Net Assets		**1,020,197**	1,388,317
Total Liabilities and Net Assets		**$ 1,072,538**	$ 1,472,778

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, 2012 AND 2011

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Unrestricted Net Assets	Notes	**2012**	2011
Revenues, Gains, and Other Support			
Waterfront Project Revenue	K	**$ 2,980**	$ 297,835
HRBT Foundation Grant Revenue	L	**10,726**	40,925
NYSERDA Grant Revenue	M	**7,500**	22,500
Other Program and Grant Revenues		**1,192**	14,000
Contributions Income - Other		**-**	675
Interest Income from Loans Receivable		**1,630**	2,414
Interest Income from Bank		**1,831**	2,912
Recovery of Bad Debt	G	**8,986**	4,075
Rent Income	N	**6,900**	3,000
Miscellaneous Income		**10,305**	-
Total Unrestricted Revenues, Gains, and Other Support		**52,050**	388,336
Expenses			
Program Services		**105,621**	442,817
Supporting Services			
Management and General		**314,549**	102,292
Total Supporting Services		**314,549**	102,292
Total Expenses		**420,170**	545,109
Increase (Decrease) in Unrestricted Net Assets		**(368,120)**	(156,773)
Increase (Decrease) in Temporarily Restricted Net Assets		**-**	-
Increase (Decrease) in Permanently Restricted Net Assets		**-**	-
Increase (Decrease) in Total Net Assets		**(368,120)**	(156,773)
Total Net Assets at Beginning of Year		**1,388,317**	1,545,090
Total Net Assets at End of Year		**$ 1,020,197**	$ 1,388,317

See auditor's report and accompanying notes to financial statements

HUDSON DEVELOPMENT CORPORATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

STATEMENTS OF FUNCTIONAL EXPENSES

	Program Services	Management and General	2012	2011
Functional Expenses				
Bookkeeping and Audit Fees	$ -	$ 19,111	$ 19,111	$ 26,888
Community Development Expenses	22,265	-	22,265	13,194
Community Program Expenses	1,412	-	1,412	11,780
Consultants and Contractual Expenses	43,343	600	43,943	45,955
Depreciation Expense	-	9,944	9,944	2,440
Dues and Membership Expense	-	267	267	137
Gross Payroll Expense	10,789	-	10,789	-
Utilities Expense	-	2,827	2,827	1,905
HRBT Foundation Grant Expenses	4,180	-	4,180	47,472
Insurance Expense	-	8,862	8,862	14,520
Loss on Sale of Property	-	270,770	270,770	-
Miscellaneous Expense	-	275	275	347
NYSERDA Grant Expense	7,500	-	7,500	22,500
Office Expenses	1,578	1,579	3,157	5,596
Other Grant Expenses	5,625	-	5,625	5,596
Payroll Tax Expenses	2,098	-	2,098	-
Property Operating Expenses	-	314	314	51,096
Rent Expense	-	-	-	3,449
Waterfront Expenses	6,831	-	6,831	297,830
Total Functional Expenses	$ 105,621	$ 314,549	$ 420,170	$ 545,109

See auditor's report and accompanying notes to financial statements

HUDSON DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Cash Flows Provided By (Used By) Operating Activities		
Increase (Decrease) in net assets	$ (368,120)	$ (156,773)
Adjustments to reconcile change in net assets to		
net cash provided from operating activities:		
Depreciation	9,944	2,440
(Gain)/Loss on Disposal of Property	270,770	-
(Increase) Decrease in operating assets:		
Accounts Receivable	12,838	11,889
Loans Receivable	13,094	7,849
Due from HCD & PA	-	53,340
Increase (Decrease) in operating liabilities:		
Accounts Payable	(31,400)	29,148
Payroll Liabilities	2,599	-
Advance Rent Received	(1,500)	1,500
Deferred Revenue - HRBT Foundation Grant	7,167	(18,237)
Deferred Revenue - HRG III	(8,986)	(4,075)
Deferred Revenue - Other	-	(5,000)
Cash Flows Provided By (Used By) Operating Activities	(93,594)	(77,919)
Cash Flows Provided By (Used By) Investing Activities		
Disposition of Asset Held for Resale	240,902	-
Assets Held for Resale Expenditures	(18,513)	(14,550)
Acquisition of Property & Equipment - Leasehold Imrovements	(14,588)	(219,280)
Acquisition of Property & Equipment - Furniture & Fixtures	-	(19,802)
Cash Flows Provided By (Used By) Investing Activities	207,801	(253,632)
Cash Flows Provided By (Used By) Financing Activities		
	-	-
Cash Flows Provided By (Used By) Financing Activities	-	-
Change in Cash	114,207	(331,551)

HUDSON DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Cash Balance - October 1, 2011 and 2010		**330,834**		662,385
Cash Balance - September 30, 2012 and 2011	**$**	**445,041**	$	330,834
Supplemental Data				
Interest Paid	**$**	**-**	$	-
Income Taxes Paid	**$**	**-**	$	-

Noncash Transactions

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 Statements of Functional Expenses.

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 year ended September 30, 2012 and 2011 was $9,944 and $2,440, 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, 2012 and 2011, the Organization did not own any highly liquid investments other than cash. Cash balances at September 30, 2012 and 2011 were $445,041 and $330,834, respectively.

Concentration of Credit Risk The Organization maintains cash balances at three financial institutions located in New York State. Accounts at each institution are collectively secured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At September 30, 2012 and 2011, the Organization had no accounts exceeding the FDIC limits.

NOTE B: Summary of Significant Accounting Policies - Continued

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.

NOTE C: Related Parties

During the year ended September 30, 2012 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, 2012 was $33,999.

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, 2012 and 2011.

NOTE E: Accounts Receivable

Accounts receivable as of September 30, 2012 in the amount of $15,375 represent various amounts due to the Organization for grants related to Waterfront projects. Accounts receivable as of September 30, 2011 in the amount of $28,213 represent various amounts due to the Organization for grants related to Waterfront projects and a NYSERDA energy audit.

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. Therefore, the balance of this receivable as of both September 30, 2012 and 20110 was $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, 2012 and 2011 the Organization received $8,986 and $4,075, respectively, in principal payments from HRG, all of which was recognized as recovery of bad debt.

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

NOTE H: Assets Held for Sale

As of the prior year ended 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. The basis of the North Front Street property as of September 30, 2011 was $750,834.

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 is $283,832.

NOTE I: Property & Equipment

During the years ended September 30, 2012 and 2011 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, 2012 all expenditures related to the leasehold improvements have been expended. In addition to the leasehold improvements, the Organization also purchased furniture and fixtures relating to its new facility. Below is a schedule of Property and Equipment as of September 30, 2012 and 2011:

Property & Equipment Asset	2012	2011
Leasehold Improvements	$ 291,883	$ 277,295
Furniture & Fixtures	19,802	19,802
Less: Accumulated Depreciation	(12,384)	(2,440)
Totals	$ 299,301	$ 294,657

NOTE J: Board Designated Unrestricted Net Assets

During the year ended September 30, 2010 the Organization entered into an agreement with the City of Hudson to assist with the renovation of the property known as "Washington Hose Property". The Organization's obligation towards the improvements was $287,000. The Organization, received in return for the improvements, a twelve (12) year lease of the facility once the interior was completed and "move-in" ready. During the year ended September 30, 2010, the Organization's Board of Directors designated $150,000 to these expenditures. During the year ended September 30, 2010, $58,015 was expended towards the improvements of the property, thus reducing the board designated unrestricted net assets to $91,985. During the year ended September 30, 2011 the Organization's Board of Directors designated the remaining $137,000 for this obligation and also expended $219,281 for the property improvements. The remaining balance of Board Designated Unrestricted Net Assets at September 30, 2011 was $9,704. During the year ended September 30, 2012 the remaining balance of Board Designated Unrestricted Net Assets was expended. There are no Board Designated Net Assets as of September 30, 2012.

NOTE K: 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 years ended September 30, 2012 and 2011 the Organization did not recognize any revenue or incur any expenditures related to this grant. The amount included in accounts receivable related to this grant as of September 30, 2012 and 2011 was $10,655 and $13,224.

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. No revenue was recognized during the year ended September 30, 2012 During the year ended September 30, 2011 the Organization recognized $4,989 as revenue. As of September 30, 2012 and 2011 the amounts not received and included in Accounts Receivable were $4,720 and $7,489, respectively.

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 years ended September 30, 2012 and 2011 the Organization recognized $2,980 and $228,725, respectively, as revenue. As of September 30, 2012 all amounts due to the Organization have been received. Therefore, there is no amount of receivable as of September 30, 2012. There also was no receivable for this grant as of September 30, 2011. This grant is considered fully expended with no additional reimbursements anticipated.

The Organization received additional amounts from the City of Hudson during the year ended September 30, 2011 related to the improvement of the local waterfront docks. These additional amounts totaling $64,121 were reimbursements of Organizational expenditures above the project expenditures related to the $250,000 waterfront dock project mentioned above, and are reflected in the total Waterfront Project Revenue.

NOTE L: 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, 2011 the Organization received a total of $22,688 in grant funds. The total qualified expenditures recognized during the year ended September 30, 2011 was $40,925. Revenue recognized from this grant also totaled $40,925.

NOTE L: HRBT Foundation Grant - Continued

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.

Additional amounts received totaling $31,950 and $24,783, respectively, are stated on the balance sheet as a current liability, Deferred Revenue – HRBT Foundation Grant, and as of September 30, 2012 and 2011, had not been expended.

NOTE M: 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. $7,500 of this total revenue is recorded as a receivable as of September 30, 2011 and was received during the year ended December 31, 2012.

NOTE N: 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 year ended September 30, 2012 and 2011 the Organization recognized $6,900 and $3,000, respectively, as rent income. As of September 30, 2011 the Organization had received and held $1,500 as Advance Rent. This amount was recognized as a current liability. No advance rent was recognized as of September 30, 2012.

NOTE O – 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 P – 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 19, 2012 (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.

NOTE Q – 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 year ended September 30, 2012 and 2011. As of September 30, 2012 and 2011 the Organization did not have any cash accounts which were in excess of FDIC limits.