

**HUDSON DEVELOPMENT CORPORATION  
AUDIT REPORT  
AND FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

HUDSON DEVELOPMENT CORPORATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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*Certified Public Accountants, P.C.*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Hudson Development Corporation

We have audited the accompanying statement of financial position of Hudson Development Corporation (a nonprofit corporation) as of December 31, 2013, the related statements of activities and changes in net assets, statements of functional expenses, and cash flows for the three and fifteen months ended December 31, 2013, 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 December 31, 2013 and the changes in its net assets and cash flows for three and fifteen months ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

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

SHALLO, GALLUSCIO, BIANCHI & FUCITO  
CERTIFIED PUBLIC ACCOUNTANTS, P.C.  
Cairo, New York  
March 10, 2014

HUDSON DEVELOPMENT CORPORATION  
STATEMENT OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2013

	Notes	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash on hand and in Bank	B	\$ 378,274
Loans Receivable		5,362
Lawsuit Settlement Receivable	E	-
Assets Held for Sale	G	-
<b>Total Current Assets</b>		<b>383,636</b>
<b>Property &amp; Equipment - Net</b>	B & H	<b>286,645</b>
<b>Total Assets</b>		<b>\$ 670,281</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable		\$ 9,675
Payroll Liabilities		2,347
Deferred Revenue - HRBT Foundation Grant	J	19,850
<b>Total Current Liabilities</b>		<b>31,872</b>
<b>Long Term Liabilities</b>		
<b>Total Long Term Liabilities</b>		-
<b>Total Liabilities</b>		<b>31,872</b>
<b>Net Assets</b>	D	
Unrestricted		
Undesignated		638,409
Temporarily Restricted		-
Permanently Restricted		-
<b>Total Net Assets</b>		<b>638,409</b>
<b>Total Liabilities and Net Assets</b>		<b>\$ 670,281</b>

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

HUDSON DEVELOPMENT CORPORATION  
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

Unrestricted Net Assets	Notes	Three Months December 31, 2013	Fifteen Months December 31, 2013
<b>Revenues, Gains, and Other Support</b>			
Waterfront Project Revenue	I	\$ -	\$ 9,919
HRBT Foundation Grant Revenue	J	5,000	12,100
Other Program and Grant Revenues		-	33,686
Interest Income from Loans Receivable		84	907
Interest Income from Bank		436	2,579
Recovery of Bad Debt	F	-	5,299
Rent Income	K	1,800	9,000
Miscellaneous Income		-	125
<b>Total Unrestricted Revenues, Gains, and Other Support</b>		<b>7,320</b>	<b>73,615</b>
<b>Expenses</b>			
Program Services		20,535	146,536
Supporting Services			
Management and General		16,616	308,867
Total Supporting Services		16,616	308,867
<b>Total Expenses</b>		<b>37,151</b>	<b>455,403</b>
<b>Increase (Decrease) in Unrestricted Net Assets</b>		<b>(29,831)</b>	<b>(381,788)</b>
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>		<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Permanently Restricted Net Assets</b>		<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Total Net Assets</b>		<b>(29,831)</b>	<b>(381,788)</b>
<b>Total Net Assets at Beginning of Period</b>		<b>668,240</b>	<b>1,020,197</b>
<b>Total Net Assets at End of Year</b>		<b>\$ 638,409</b>	<b>\$ 638,409</b>

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

HUDSON DEVELOPMENT CORPORATION  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

**STATEMENTS OF FUNCTIONAL EXPENSES**

Functional Expenses	Program Services	Management and General	Three Months Ended December 31, 2013
Bad Debt Expense	\$ -	\$ -	\$ -
Bookkeeping and Audit Fees	-	6,609	6,609
Community Development Expenses	-	-	-
Consultants and Contractual Expenses	1,545	1,371	2,916
Depreciation Expense	-	2,531	2,531
Dues and Membership Expense	-	-	-
Gross Payroll Expense	11,993	-	11,993
HRBT Foundation Grant Expenses	5,000	-	5,000
Insurance Expense	-	5,255	5,255
Loss on Sale of Property	-	-	-
Miscellaneous Expense	-	281	281
Office Expenses	65	65	130
Payroll Tax Expenses	1,583	-	1,583
Property Operating Expenses	349	-	349
Utilities Expense	-	504	504
<b>Total Functional Expenses</b>	<b>\$ 20,535</b>	<b>\$ 16,616</b>	<b>\$ 37,151</b>

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

HUDSON DEVELOPMENT CORPORATION  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**STATEMENTS OF FUNCTIONAL EXPENSES**

	Program Services	Management and General	Fifteen Months Ended December 31, 2013
<b>Functional Expenses</b>			
Bad Debt Expense	\$ -	\$ 13,077	\$ 13,077
Bookkeeping and Audit Fees	-	22,385	22,385
Community Development Expenses	24,041	-	24,041
Consultants and Contractual Expenses	7,780	6,899	14,679
Depreciation Expense	-	12,657	12,657
Dues and Membership Expense	-	397	397
Gross Payroll Expense	38,226	-	38,226
HRBT Foundation Grant Expenses	13,491	-	13,491
Insurance Expense	-	14,755	14,755
Loss on Sale of Property	-	234,825	234,825
Miscellaneous Expense	-	541	541
Office Expenses	869	869	1,738
Payroll Tax Expenses	6,197	-	6,197
Property Operating Expenses	55,932	-	55,932
Utilities Expense	-	2,462	2,462
<b>Total Functional Expenses</b>	<b>\$ 146,536</b>	<b>\$ 308,867</b>	<b>\$ 455,403</b>

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

HUDSON DEVELOPMENT CORPORATION  
 STATEMENTS OF CASH FLOWS  
 FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

	<b>Three Months</b>	<b>Fifteen Months</b>	
	<b>December 31, 2013</b>		<b>December 31, 2013</b>
<b>Cash Flows Provided By (Used By) Operating Activities</b>			
Increase (Decrease) in net assets	\$ (29,831)	\$	(381,788)
Adjustments to reconcile change in net assets to net cash provided from operating activities:			
Depreciation	2,530		12,656
Bad Debt Expense	-		13,077
(Gain)/Loss on Disposal of Property	-		234,825
(Increase) Decrease in operating assets:			
Accounts Receivable	-		15,375
Loans Receivable	782		10,550
Increase (Decrease) in operating liabilities:			
Accounts Payable	1,475		(2,818)
Payroll Liabilities	543		(252)
Advance Rent Received	-		-
Deferred Revenue - HRBT Foundation Grant	(5,000)		(12,100)
Deferred Revenue - Other	-		-
<b>Cash Flows Provided By (Used By) Operating Activities</b>	<b>(29,501)</b>		<b>(110,475)</b>
<b>Cash Flows Provided By (Used By) Investing Activities</b>			
Disposition of Asset Held for Resale	-		44,340
Assets Held for Resale Expenditures	-		(632)
Acquisition of Property & Equipment - Furniture & Fixtures	-		-
<b>Cash Flows Provided By (Used By) Investing Activities</b>	<b>-</b>		<b>43,708</b>
<b>Cash Flows Provided By (Used By) Financing Activities</b>			
<b>Cash Flows Provided By (Used By) Financing Activities</b>	<b>-</b>		<b>-</b>
<b>Change in Cash</b>	<b>(29,501)</b>		<b>(66,767)</b>

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

HUDSON DEVELOPMENT CORPORATION  
 STATEMENTS OF CASH FLOWS  
 FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

	Three Months December 31, 2013	Fifteen Months December 31, 2013
Change in Cash - from prior page	\$ (29,501)	\$ (66,767)
Cash Balance - October 1, 2013 and 2012	407,775	445,041
Cash Balance - December 31, 2013	\$ 378,274	\$ 378,274
<b>Supplemental Data</b>		
Interest Paid	\$ -	\$ -
Income Taxes Paid	\$ -	\$ -

**Noncash Transactions**

During the fifteen months ended December 31, 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 Statements of Functional Expenses.

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

HUDSON DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**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 three and fifteen months ended December 31, 2013 were \$2,531 and \$12,657, 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 year ended December 31, 2013, the Organization did not own any highly liquid investments other than cash. Cash balance at December 31, 2013 was \$378,274.

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 THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**NOTE C: Related Parties**

During the three and fifteen months ended December 31, 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 three and fifteen months ended December 31, 2013 were \$12,689 and \$58,453, respectively.

**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.

As of December 31, 2013, the Organization only had unrestricted net assets.

**NOTE E: 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.

HUDSON DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**NOTE E: Lawsuit Settlement Receivable - CONTINUED**

The Organization resolved to write off the Lawsuit Settlement Receivable as uncollectible during the year 2013. This resolution eliminated the receivable and increased Bad Debt Expenses by \$13,077 for the fifteen months ended December 31, 2013. The write off of the uncollectible as Bad Debt Expenses was already made prior to the period for the three months ended December 31, 2013.

**NOTE F: 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. The Organization did not receive any repayment during the three months ended December 31, 2013. However, repayment was received during the fifteen months ended December 31, 2013 for the amount of \$5,299 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 December 31, 2013.

**NOTE G: Assets Held for Sale**

During the fifteen months ended December 31, 2013 a parcel of land held for sale on North Front Street was sold netting \$49,639 after closing costs. The Organization recognized a loss on the sale of this property for \$234,825.

HUDSON DEVELOPMENT CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**NOTE H: Property & Equipment**

During the fifteen months ended December 31, 2013, the Organization incurred expenditures for the improvement of property known as "Washington Hose Property". As of December 31, 2013 all expenditures related to the leasehold improvements have been expended. Below is a schedule of Property and Equipment as of December 31, 2013:

Property & Equipment Asset	December 31, 2013
Leasehold Improvements	291,883
Furniture & Fixtures	19,802
Less: Accumulated Depreciation	(25,041)
<b>Totals</b>	<b>\$ 286,644</b>

**NOTE I: Waterfront Projects**

The Organization had entered into an agreement prior to October 1, 2012 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 fifteen months ended December 31, 2013 the Organization recognized \$1,775 as revenue. This grant is considered fully expended with no additional reimbursements anticipated. The grant was already considered fully expended in the period prior to the three months ended December 31, 2013.

The Organization had entered into a second agreement prior to October 1, 2012 with the City of Hudson to expend funds related to the improvement of the local waterfront area. The City secured a grant from the Environment Protection Fund and reimburses the Organization for expenditures related to improvement of the waterfront. During the fifteen months ended December 31, 2013 the Organization recognized \$8,144 as revenue. This grant is considered fully expended with no additional reimbursements anticipated. The grant was already considered fully expended in the period prior to the three months ended December 31, 2013.

**NOTE J: 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.

For the three and fifteen months ended December 31, 2013, the total qualified expenditures and adjustments to revenue were \$5,000 and \$12,100, respectively. Revenue recognized from this grant also totaled \$5,000 and \$12,100.

HUDSON DEVELOPMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE AND FIFTEEN MONTHS ENDED DECEMBER 31, 2013

**NOTE K: Rent Income**

During the year 2011, the Organization entered into an agreement to lease storage space of the property known as "KAZ". Beginning with January 1, 2012 the monthly rent is \$600. During the three and fifteen months ended December 31, 2013, the Organization recognized \$1,800 and \$9,000, respectively as rent income.

**NOTE L – 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 M – 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 March 10, 2014 (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 N – 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 three and fifteen months ended December 31, 2013. The Organization did not have any cash accounts which were in excess of FDIC limits as of December 31, 2013