

HUDSON RIVER SLOOP CLEARWATER, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED NOVEMBER 30, 2013 AND 2012

HUDSON RIVER SLOOP CLEARWATER, INC.
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Independent Auditor's Report

To the Board of Directors of
Hudson River Sloop Clearwater, Inc.
Beacon, New York

We have audited the accompanying financial statements of Hudson River Sloop Clearwater, Inc. (a nonprofit organization) which comprise the statements of financial position as of November 30, 2013 and 2012, and the related statements of activities 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 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 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 River Sloop Clearwater, Inc. as of November 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 16 to the financial statements, certain errors resulting in understatement of amounts previously reported for fixed assets and individual donations as of November 30, 2012, were discovered during the current year. Accordingly, amounts reported for fixed assets and individual donations have been restated in the 2012 financial statements now presented, and an adjustment has been made to net assets as of November 30, 2012, to correct the error. Our opinion is not modified with respect to that matter.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 20-21 are presented for purposes of additional analysis and are 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 audits 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.

D'Arcangelo & Co., LLP

April 1, 2014
Poughkeepsie, New York

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF FINANCIAL POSITION
November 30, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 57,695	\$ 68,376
Grants and accounts receivable	227,279	296,424
Pledge receivable, current	2,974	2,974
Prepaid rent, current	14,520	14,400
Prepaid insurance	15,640	21,289
Merchandise inventory	<u>26,115</u>	<u>36,298</u>
Total current assets	<u>344,223</u>	<u>439,761</u>
Fixed Assets		
Land	145,400	145,400
Leasehold improvements	813,771	3,252
Sloop, yawl, boat and boat equipment	1,806,848	1,451,062
Furniture and equipment	86,966	86,966
Construction in progress	<u>-</u>	<u>799,363</u>
	2,852,985	2,486,043
Accumulated depreciation	<u>(943,672)</u>	<u>(816,192)</u>
Total fixed assets	<u>1,909,313</u>	<u>1,669,851</u>
Other assets		
Pledge receivable, long-term	7,543	9,860
Prepaid rent, long-term	44,217	56,737
Investments held for endowment purposes	-	92,700
Beneficial interest in assets held by a community foundation	<u>165,190</u>	<u>371,864</u>
Total other assets	<u>216,950</u>	<u>531,161</u>
Total assets	<u>\$ 2,470,486</u>	<u>\$ 2,640,773</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF FINANCIAL POSITION, continued
November 30, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit	\$ 174,194	\$ -
Current portion of notes payable	93,734	30,444
Accounts payable	86,531	270,532
Accrued expenses	12,995	16,378
Refundable advances	7,478	15,750
Deferred program revenue	<u>6,500</u>	<u>23,810</u>
Total current liabilities	381,432	356,914
Long-term liabilities		
Notes payable, net of current portion	<u>57,000</u>	<u>64,556</u>
Total liabilities	<u>438,432</u>	<u>421,470</u>
Net assets		
<i>Unrestricted</i>		
Board designated reserve for endowment	165,190	464,564
Undesignated	<u>1,855,052</u>	<u>1,739,739</u>
Total unrestricted	2,020,242	2,204,303
<i>Temporarily restricted</i>		
	<u>11,812</u>	<u>15,000</u>
Total net assets	<u>2,032,054</u>	<u>2,219,303</u>
Total liabilities and net assets	<u>\$ 2,470,486</u>	<u>\$ 2,640,773</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF ACTIVITIES
Years ended November 30, 2013 and 2012

	2013			Restated 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support						
Individual donations	\$ 454,087	\$ -	\$ 454,087	\$ 774,324	\$ -	\$ 774,324
Corporate, foundation and government support	650,595	11,812	662,407	1,089,010	5,000	1,094,010
Education program	254,176	-	254,176	332,641	-	332,641
Community program	899,714	-	899,714	1,072,874	-	1,072,874
Miscellaneous	16,501	-	16,501	8,695	-	8,695
Gain on disposal of assets	-	-	-	23,787	-	23,787
Income/(loss) on investments	722	-	722	(752)	-	(752)
Change in beneficial interest in assets held by a community foundation	43,325	-	43,325	30,172	-	30,172
	2,319,120	11,812	2,330,932	3,330,751	5,000	3,335,751
Net assets released from restriction	15,000	(15,000)	-	-	-	-
Total revenue, gains and other support	2,334,120	(3,188)	2,330,932	3,330,751	5,000	3,335,751
Expenses						
Program services:						
Communication	95,322	-	95,322	75,782	-	75,782
Education	271,568	-	271,568	281,184	-	281,184
Environmental action	207,874	-	207,874	289,354	-	289,354
Community programs	955,447	-	955,447	968,212	-	968,212
Vessels	416,826	-	416,826	369,448	-	369,448
Total program services	1,947,037	-	1,947,037	1,983,980	-	1,983,980
Supporting services:						
Management and general expenses	319,596	-	319,596	260,559	-	260,559
Fundraising expenses	251,548	-	251,548	201,987	-	201,987
Total expenses	2,518,181	-	2,518,181	2,446,526	-	2,446,526
Change in net assets	(184,061)	(3,188)	(187,249)	884,225	5,000	889,225
Net assets, beginning of year	2,204,303	15,000	2,219,303	1,320,078	10,000	1,330,078
Net assets, end of year	\$ 2,020,242	\$ 11,812	\$ 2,032,054	\$ 2,204,303	\$ 15,000	\$ 2,219,303

The accompanying notes are an integral part of these financial statements.

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF CASH FLOWS
Years ended November 30, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
Cash flows from operating activities		
Change in net assets	\$ (187,249)	\$ 889,225
<i>Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities</i>		
Depreciation	130,733	100,354
Unrealized loss on investments	-	1,350
Realized gain on investments	(150)	(274)
Non-cash contribution of services and material, home port	-	(289,320)
Non-cash contribution of securities	(2,346)	(13,130)
Non-cash contribution of services, sale of property	-	(3,250)
Change in beneficial interest in assets held by a community foundation	(43,325)	(30,172)
Gain on disposal of assets	-	(23,787)
<i>(Increase)/decrease in</i>		
Investments, proceeds from sale of donated securities	2,346	-
Grants and accounts receivable	69,145	(137,380)
Pledge receivable	2,317	2,205
Prepaid rent	12,400	13,248
Prepaid insurance	5,649	(7,478)
Merchandise inventory	10,183	83
<i>Increase/(decrease) in</i>		
Accounts payable	(184,001)	170,762
Accrued expenses	(3,383)	5,668
Refundable advances	(8,272)	14,749
Deferred program revenue	(17,310)	23,810
Net cash provided by/(used in) operating activities	<u>(213,263)</u>	<u>716,663</u>
Cash flows from investing activities		
Proceeds from sale of investments	92,848	13,652
Proceeds from sale of assets	-	28,771
Purchase of fixed assets and construction in progress	(370,194)	(594,328)
Net cash transferred from community foundation fund	<u>250,000</u>	<u>50,000</u>
Net cash used in investing activities	<u>(27,346)</u>	<u>(501,905)</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF CASH FLOWS, continued
Years ended November 30, 2013 and 2012

	<u>2013</u>	<u>Restated 2012</u>
Cash flows from financing activities		
Advances on line of credit	\$ 417,120	\$ 199,585
Repayments of line of credit	(242,926)	(324,585)
Proceeds from notes payable	74,734	-
Repayments of notes payable	<u>(19,000)</u>	<u>(42,000)</u>
Net cash provided by/(used in) financing activities	<u>229,928</u>	<u>(167,000)</u>
Net increase/(decrease) in cash and cash equivalents	(10,681)	47,758
Cash and cash equivalents, beginning of year	<u>68,376</u>	<u>20,618</u>
Cash and cash equivalents, end of year	<u>\$ 57,695</u>	<u>\$ 68,376</u>
Supplemental disclosure of cash flows information:		
Cash paid during the years for interest	<u>\$ 12,479</u>	<u>\$ 12,265</u>
Supplemental disclosure of non-cash operating, investing and financing activities		
Capitalized in-kind services	<u>\$ -</u>	<u>\$ 289,320</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS
November 30, 2013 and 2012

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of organization

Hudson River Sloop Clearwater, Inc. (the “Organization”) is a not-for-profit, member supported, environmental education and advocacy organization dedicated to the restoration and protection of the Hudson River and similar waterways. The Organization owns and operates a sailing vessel named “Clearwater”, launched in 1969 as a floating classroom on the tidewater Hudson, New York Harbor and Long Island Sound.

The Organization’s educational efforts also include land-based field trips and classroom presentations, teacher workshops, and production of curriculum resource materials. The Organization’s environmental action staff conducts grassroots advocacy programs to further its goal of cleaning and preserving the Hudson River. The Organization also celebrates historic and cultural traditions of the Hudson Valley through special events.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting wherein revenues are recorded when earned and expenses are recorded as incurred.

Financial statement presentation

The Organization is required to report 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) based upon the existence or absence of donor imposed restrictions. The Organization has adopted a Board designated endowment fund policy, providing for the setting aside of funds for future operations.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Organization had no permanently restricted net assets at November 30, 2013 and 2012.

The cost of providing the Organization’s various programs, supporting services and fundraising has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited by specific identification or management’s estimates.

Use of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used in the determination of depreciation, allocation of functional expenses and the calculation of the fair value of investments and the beneficial interest in assets held by a community foundation.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

1. Nature of Activities and Summary of Significant Accounting Policies, continued

Fair value measurements

The Organization determines the fair market value of its financial instruments based on the fair value hierarchy established by accounting principles generally accepted in the United States of America. The Organization is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective asset or liability at the measurement date as follows:

Level 1 – inputs are quoted at prices in active markets for identical assets or liabilities.

Level 2 – inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable.

Level 3 – inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Cash and cash equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Grants and accounts receivable

The Organization conducts its activities under grants received from various state, local and private sources. Grants receivable are stated at the amount management expects to collect from outstanding balances. Revenue is recognized when the grant conditions are fulfilled, such as when program expenses for the grant are incurred. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of November 30, 2013 and 2012, management has determined that an allowance is not necessary.

Pledges receivable

Unconditional promises to give are recognized as contributions in the period the promise is received. Unconditional promises that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on these amounts are computed using a risk-adjusted interest rate applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as contributions until the conditions are substantially met.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

1. Nature of Activities and Summary of Significant Accounting Policies, continued

Merchandise inventory

Merchandise inventory consists of giftware, fish keys, and clothing and is stated at the lower of cost or market on a first-in, first-out basis.

Property and equipment

Property and equipment is stated at cost. Additions, renewals, and improvements of property and equipment, unless of relatively minor amounts, are capitalized. Expenditures for maintenance and repairs are expensed as incurred. The cost of property and equipment retired or sold, together with the accumulated depreciation, are removed from the appropriate accounts and the resulting gain or loss is included in the statements of activities.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the related assets. Depreciation expense for the years ended November 30, 2013 and 2012 amounted to \$130,733 and \$100,354, respectively.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are received subject to certain donor stipulations are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Contributions of non-cash assets are recorded at their fair value in the period received. Contributions of donated services that require specialized skills, provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period provided as contribution income and as an expense on the statements of activities.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

1. Nature of Activities and Summary of Significant Accounting Policies, continued

Advertising

The Organization follows the policy of charging costs of advertising to expense as incurred. Advertising expense for the years ended November 30, 2013 and 2012 amounted to \$59,313 and \$50,322, respectively.

Income taxes

The Organization is a not-for-profit organization exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Organization remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. Management is not aware of any violations of its tax exempt status, nor any exposure to unrelated business income tax.

The Organization has not recognized any benefits from uncertain tax positions and believes it has no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the Statements of Financial Position date. As of November 30, 2013, the Organization's federal tax filings for tax years 2010 and beyond remain subject to examination by the applicable taxing jurisdictions. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Reclassifications

Certain reclassifications have been made to the 2012 financial statement presentation to conform to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

2. Pledge Receivable

Pledge receivable consists of the following as of November 30:

	<u>2013</u>	<u>Restated 2012</u>
Unconditional pledge receivable	\$ 11,896	\$ 14,870
Less: Unamortized discount	<u>(1,379)</u>	<u>(2,036)</u>
Net unconditional pledge receivable	<u>\$ 10,517</u>	<u>\$ 12,834</u>
Amounts due in:		
Less than one year	\$ 2,974	\$ 2,974
One to five years	<u>8,922</u>	<u>11,896</u>
Total amounts due	<u>\$ 11,896</u>	<u>\$ 14,870</u>

Unconditional pledge receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 5.0%. Management has determined that the pledge receivable is fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

3. Investments and Investment Return

The Organization's investments were established in September 2011 as part of the board designated endowment fund. During the year ended November 30, 2013, the Organization sold its investments and used the proceeds towards the Clearwater's restoration. The cost and fair value of these investments as of November 30, 2012 were as follows:

	<u>Cost</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
Certificates of deposit	<u>\$100,280</u>	<u>\$ (7,580)</u>	<u>\$92,700</u>

Investment return as of November 30 is summarized as follows:

	<u>2013</u>	<u>Restated 2012</u>
Interest and dividends	\$ -	\$ 275
Realized gain	150	-
Unrealized loss	<u>-</u>	<u>(1,350)</u>
Total	<u>\$ 150</u>	<u>\$ (1,075)</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

4. Beneficial Interest in Assets Held by a Community Foundation

In May 2010, the Organization transferred funds into the Community Foundations of the Hudson Valley to establish a board-designated endowment fund. The Organization has the right to invade the principal of their investment based on the procedures adopted by the Organization's Board of Directors, but has granted variance power to these funds to the Community Foundations. That power gives the Community Foundations certain rights, including the right to distribute the investment income to other non-profit organizations subject to certain conditions. As a result of these terms, the Community Foundations are the legal owner of the funds. Consequently, these funds are shown as an other asset, Beneficial Interest in Assets Held by a Community Foundation and as Board Designated Reserve for Endowment in the net asset section of the financial statements. As of November 30, 2013 and 2012, the Beneficial Interest in Assets Held by a Community Foundation was \$165,190 and \$371,864, respectively. The Organization's Beneficial Interest in Assets Held by Community Foundations of the Hudson Valley consists of transfers of assets of \$355,405 and accumulated interest and earnings, net of fees, of \$109,785 and \$66,459 as of November 30, 2013 and 2012 respectively, and net transfers of assets of \$300,000 and \$50,000 as of November 30, 2013 and 2012, respectively.

5. Line of Credit

The Organization has one available revolving line of credit in the amount of \$175,000 with an interest rate of prime plus 3.50%, 6.75% at November 30, 2013 and 2012. The line of credit is collateralized by the general assets of the Organization. There was \$174,194 outstanding on this line of credit at November 30, 2013. There were no amounts drawn on this line of credit at November 30, 2012.

Effective January 2014, the Organization entered into an agreement for a term note payable in the amount of \$175,000. The Organization used the proceeds from this note to repay the line of credit in full.

6. Notes Payable

M&T Bank Term Note

The Organization had a term note with an original balance of \$162,000 and an interest rate of prime plus .75% which matured in April, 2012. The balance due on the note at maturity amounted to \$137,000 and the original note was amended and restated in May, 2012. The new note was set to mature in May, 2017 and required monthly installments of principal in the amount of \$2,537 commencing on December 29, 2012, with payment of accrued and unpaid interest since June, 2012. At November 30, 2012 interest is at prime plus 1.55% (subject to a floor of 4.00%), 4.80%.

The note was again restated in January 2013 (with an effective date of November 2012). The note now matures November, 2017 with monthly installments of principal in the amount of \$1,583 commencing on December 29, 2012. At November 30, 2013, interest is at prime plus 1.05% (subject to a floor of 4.00%), 4.30%. The note is collateralized by the general assets of the Organization.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

6. Notes Payable, continued

M&T Bank Multiple Disbursement Term Note

The Organization has a multiple disbursement term note with total available funds in the amount of \$75,000. The balance due on the note at November 30, 2013 amounted to \$74,734 with the total unpaid principal balance due on or before July, 2014. Interest is at prime less 0.25%, 3.00% at November 30, 2013. The note is guaranteed by Hudson Rising, LLC, an entity with which the Organization had an agreement to act as fiscal sponsor for the Hudson Rising Tall Ship Green Expo.

Maturities of long-term debt as of November 30, 2013 are as follows:

Year ending:	November 30, 2014	\$ 93,734
	November 30, 2015	19,000
	November 30, 2016	19,000
	November 30, 2017	<u>19,000</u>
Total		<u>\$150,734</u>

7. Board Designated Endowment

The Board of Directors designated a total of \$405,405 of unrestricted net assets as an endowment to support the mission of the Organization. Since that amount resulted from an internal designation and is not donor-restricted, it is classified as unrestricted net assets. A portion of the endowment fund is maintained at the Community Foundations of the Hudson Valley (the "Foundation") in the Hudson River Sloop Clearwater Fund (the "Fund") and the other portion is maintained through investments held with M&T Securities, Inc. (the "Investment").

Income of the Fund, as determined annually by the "Payout Rate" adopted by the Board of Trustees of the Foundation, shall be paid and distributed to the Organization at least annually, or more frequently, as the parties may agree, to support the general charitable, cultural, or educational purposes of the Organization. All earnings from the Fund's inception have been retained in the Fund. The Fund is administered by the Foundation and follows the Foundation's investment policy and has its funds invested in the Foundation's Socially Responsible Investment Fund.

The Investment held for endowment purposes does not have a formal investment or spending policy. The Investment is intended to be held for the long-term and consists of certificates of deposit.

In transferring the property to the Fund and the Investment the Organization intended to create a permanent endowment. However, distributions in excess of the amounts indicated in the spending policy may be made if one of the following conditions are met: (1) the distribution is for the purpose of enabling the Organization to acquire or renovate a capital asset; and/or (2) the Organization is faced with unexpected financial needs that are not likely to recur, and the distribution will enable the Organization to meet those needs.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

7. Board Designated Endowment, continued

Composition of and changes in endowment net assets for the years ended November 30, 2013 and 2012 were as follows:

	<u>Unrestricted</u>
Board designated endowment net assets, December 1, 2011	\$ 485,467
Year ended November 30, 2012 period change:	
Net increase in beneficial interest in assets held by a community foundation	30,172
Net investment loss	(1,075)
Distributions for Home Port Construction	<u>(50,000)</u>
Board designated endowment net assets, November 30, 2012	464,564
Year ended November 30, 2013 period change:	
Net increase in beneficial interest in assets held by a community foundation	43,325
Net investment income	150
Distributions for Sloop Restoration	<u>(342,849)</u>
Board designated endowment net assets, November 30, 2013	<u>\$ 165,190</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consists of the following at November 30:

	<u>2013</u>	<u>Restated 2012</u>
Environmental education programs	\$ 10,000	\$ 15,000
Board development and strategic planning	<u>1,812</u>	<u>-</u>
Total	<u>\$ 11,812</u>	<u>\$ 15,000</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

9. Gifts in Kind

The Organization records the value of donated goods, facilities, and services when there is an objective basis to measure the fair value. The value of these contributions, as determined by the Organization, amounted to \$850 and \$292,570 for the years ended November 30, 2013 and 2012, respectively. These amounts have been included in individual donations on the statements of activities. Not all contributions of services have been reflected in the financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

10. Fair Value Measurements

Fair value of assets measured on a recurring basis as of November 30, 2013 and 2012 are as follows:

	Fair Value Measurements Using:			
	Fair Value	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>November 30, 2013:</i>				
Beneficial interest in assets held by a community foundation	<u>\$165,190</u>	<u>\$ -</u>	<u>\$ 165,190</u>	<u>\$ -</u>
<i>November 30, 2012:</i>				
Certificates of deposit	\$ 92,700	\$ -	\$ 92,700	\$ -
Beneficial interest in assets held by a community foundation	<u>371,864</u>	<u>-</u>	<u>371,864</u>	<u>-</u>
Total	<u>\$464,564</u>	<u>\$ -</u>	<u>\$ 464,564</u>	<u>\$ -</u>

The following is a description of the valuation methodologies used for assets measured at fair value:

Certificates of deposit

Valued at fair value by discounting the related cash flows based on current yields of similar investments with comparable durations considering the credit worthiness of the issuer.

Beneficial interest in assets held by a community foundation

Valued using a market approach. The beneficial interest is valued based on the underlying assets of the fund it is invested in which consists primarily of a diversified mutual fund and cash.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

10. Fair Value Measurements, continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at November 30, 2013 and 2012.

11. Operating Leases

City of Beacon, Building

The Organization leases a building under an operating lease with the City of Beacon. The lease expires November 30, 2019 with the option to renew for two additional successive periods of five years each. Rent is payable in monthly installments of \$1,200 with an increase set every five years during the term of the lease. However, rent will be reduced (and deemed paid) to the extent of the fair market value of certain improvements and renovations completed by the Organization on the leased property.

The Organization has recorded prepaid rent on its books for the costs of improvements and renovations incurred. The balance remaining as of November 30, 2013 and 2012 amounted to \$58,737 and \$71,137, respectively. Rent expense for each of the years presented amounted to \$14,400.

Kingston Home Port

In December 2013, the Organization began leasing a building under an operating lease with the Hudson River Maritime Museum. The lease is for a 10 year initial term with the option of two additional ten year renewals. The lease calls for annual rent of only \$1 and that the Organization pay for all utilities and services used during the time it occupies the property. The Organization leases the building from each October through April in order to perform repairs to the Sloop Clearwater during the non-sailing season.

The Organization, as a condition of this lease agreement, cooperated with the design and construction of the building, incurring approximately \$814,000 in costs which have been capitalized on the books of the Organization as of November 30, 2013. Depreciation expense related to this asset in the amount of approximately \$27,000 has been included in the statement of activities for the year ended November 30, 2013.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

12. Related Party Transactions

During the year ended November 30, 2012, the Organization received the following in-kind contributions from the Board President related to the construction of the Home Port:

Contribution of professional services	\$ 150,320
Contribution of building materials	<u>139,000</u>
Total	<u>\$ 289,320</u>

13. Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. During the year, cash balances may exceed federally insured limits. The Organization has not experienced losses in any such accounts, and does not believe it is exposed to any significant credit risk in these accounts.

The beneficial interest in assets held by a community foundation is exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

14. Economic Dependency

The Organization receives a substantial amount of its support from donations and grants. A significant reduction in the level of this support, if this were to occur, it may have an effect on the programs and activities provided by the Organization.

15. Contingencies

Grants received by the Organization are subject to audit and adjustment by the funding agency or its representative. If grant revenues are received for expenditures which are subsequently disallowed, the Organization may be required to repay the revenues to the funding agency.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2013 and 2012

16. Restatement

During the year ended November 30, 2013, the Organization identified \$40,320 of in-kind professional services provided during the year ended November 30, 2012 for construction of the Home Port that had not been included in the financial statements for that year. Accordingly the Organization restated its financial statements for the year ended November 30, 2012 by increasing individual contributions, changes in net assets, construction in progress and unrestricted net assets by \$40,320.

17. Subsequent Events

Management has evaluated subsequent events through April 1, 2014, which is the date the financial statements are available for issuance.

SUPPLEMENTARY INFORMATION

HUDSON RIVER SLOOP CLEARWATER, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
Year ended November 30, 2013

	Program Services					Supporting Services		Total
	Communications	Education	Environmental Action	Community Programs	Vessels	Management & General	Fundraising	
Salaries	\$ 55,178	\$ 183,835	\$ 141,623	\$ 160,856	\$ 114,460	\$ 80,288	\$ 167,113	\$ 903,353
Employee benefits	13,007	43,051	29,215	46,312	43,072	19,644	39,349	233,650
Total personnel and related costs	68,185	226,886	170,838	207,168	157,532	99,932	206,462	1,137,003
Travel and conferences	1,002	4,701	2,779	4,409	7,099	1,767	1,947	23,704
Insurance	-	-	-	14,866	32,003	10,980	-	57,849
Printing	11,189	207	1,246	11,039	-	1,775	7,385	32,841
Equipment rental and maintenance	-	210	-	123,838	5,863	17,299	1,500	148,710
Leased vessel	-	-	-	13,000	50,580	-	-	63,580
Telephone	-	1,569	(2)	1,426	1,570	5,126	3	9,692
Postage	2,127	-	-	4,097	-	1,402	12,289	19,915
Professional services	-	7,156	622	70,249	9,963	97,489	-	185,479
Program consultants	9,987	11,805	28,542	339,184	1,050	5,378	15,205	411,151
Rent	-	-	-	-	-	14,400	-	14,400
Utilities	-	-	-	-	6,565	6,251	-	12,816
Merchandise inventory	-	-	-	42,927	-	-	-	42,927
Food	-	1,494	2,047	45,480	16,800	1,489	515	67,825
Operating supplies	170	7,572	815	14,475	27,300	3,399	147	53,878
Office supplies	102	540	506	1,803	-	5,670	1,330	9,951
Other rental fees	-	-	-	-	581	-	-	581
Advertising	2,560	2,034	188	52,821	-	225	1,485	59,313
Interest expense	-	-	-	400	12	11,517	550	12,479
Bank charges and investment fees	-	-	90	3,803	(80)	7,190	2,037	13,040
Registration, permits & licenses	-	517	-	4,462	2,880	325	158	8,342
Miscellaneous	-	110	203	-	775	349	535	1,972
Depreciation	-	6,767	-	-	96,333	27,633	-	130,733
Total expenses	<u>\$ 95,322</u>	<u>\$ 271,568</u>	<u>\$ 207,874</u>	<u>\$ 955,447</u>	<u>\$ 416,826</u>	<u>\$ 319,596</u>	<u>\$ 251,548</u>	<u>\$ 2,518,181</u>

See independent auditor's report.

HUDSON RIVER SLOOP CLEARWATER, INC.
SCHEDULES OF FUNCTIONAL EXPENSES, continued
Year ended November 30, 2012

	Program Services					Supporting Services		Total
	Communications	Education	Environmental Action	Community Programs	Vessels	Management & General	Fundraising	
Salaries	\$ 43,754	\$ 187,187	\$ 167,468	\$ 225,291	\$ 108,404	\$ 72,154	\$ 116,179	\$ 920,437
Employee benefits	8,690	41,029	35,268	47,671	38,289	14,556	23,640	209,143
Total personnel and related costs	52,444	228,216	202,736	272,962	146,693	86,710	139,819	1,129,580
Travel and conferences	1,226	6,568	8,951	7,856	4,897	2,967	3,563	36,028
Insurance	-	-	-	22,082	29,259	14,931	-	66,272
Printing	7,786	1,524	2,144	11,933	72	189	18,988	42,636
Equipment rental and maintenance	-	990	-	126,464	1,898	17,701	-	147,053
Leased vessel	-	-	-	13,000	52,160	-	-	65,160
Telephone	-	3,192	(528)	1,415	790	5,464	-	10,333
Postage	1,200	135	-	6,428	-	2,432	18,443	28,638
Professional services	671	6,491	3,697	-	8,180	76,100	1,145	96,284
Program consultants	9,601	10,160	63,877	350,908	-	385	14,554	449,485
Rent	-	-	-	-	-	14,400	-	14,400
Utilities	-	837	-	-	6,498	3,572	-	10,907
Merchandise inventory	-	-	-	39,451	-	-	-	39,451
Food	-	3,648	858	46,614	8,460	1,461	110	61,151
Operating supplies	20	6,607	6,406	12,083	16,660	1,820	3,350	46,946
Office supplies	-	285	1,013	1,644	10	7,367	731	11,050
Other rental fees	-	116	200	7,920	4,400	175	-	12,811
Advertising	2,330	1,114	-	46,878	-	-	-	50,322
Interest expense	-	-	-	-	13	11,372	880	12,265
Bank charges and investment fees	-	-	-	(243)	87	10,384	54	10,282
Registration, permits & licenses	-	(376)	-	817	3,115	329	-	3,885
Miscellaneous	504	66	-	-	150	163	350	1,233
Depreciation	-	11,611	-	-	86,106	2,637	-	100,354
Total expenses	<u>\$ 75,782</u>	<u>\$ 281,184</u>	<u>\$ 289,354</u>	<u>\$ 968,212</u>	<u>\$ 369,448</u>	<u>\$ 260,559</u>	<u>\$ 201,987</u>	<u>\$ 2,446,526</u>

See independent auditor's report.