

HUDSON RIVER SLOOP CLEARWATER, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED NOVEMBER 30, 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 statement of financial position of Hudson River Sloop Clearwater, Inc. (a nonprofit organization) as of November 30, 2012 and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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 River Sloop Clearwater, Inc. as of November 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 18 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.

D'Arcangelo & Co., LLP

April 11, 2013
Poughkeepsie, New York

HUDSON RIVER SLOOP CLEARWATER, INC.**STATEMENT OF FINANCIAL POSITION****November 30, 2012****ASSETS****Current assets**

Cash and cash equivalents	\$ 68,376	
Grants and accounts receivable	296,424	
Pledge receivable, current	2,974	
Prepaid rent	71,137	
Prepaid insurance	21,289	
Merchandise inventory	<u>36,298</u>	
Total current assets		\$ 496,498

Fixed Assets

Land	145,400	
Leasehold improvements	3,252	
Sloop, yawl, boat and boat equipment	1,451,062	
Furniture and equipment	86,966	
Construction in progress	<u>759,043</u>	
	2,445,723	
Accumulated depreciation	<u>(816,192)</u>	
Total fixed assets		1,629,531

Other assets

Pledge receivable, long-term	9,860	
Investments held for endowment purposes	92,700	
Beneficial interest in assets held by a community foundation	<u>371,864</u>	
Total other assets		<u>474,424</u>
Total assets		<u>\$ 2,600,453</u>

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

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENT OF FINANCIAL POSITION, continued
November 30, 2012

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 270,532	
Accrued expenses	16,378	
Refundable advances	15,750	
Current portion of note payable	30,444	
Deferred program revenue	<u>23,810</u>	
Total current liabilities		\$ 356,914

Long-term liabilities

Note payable, net of current portion		<u>64,556</u>
Total liabilities		421,470

Net assets

Unrestricted

Board designated reserve for endowment	464,564	
Undesignated	<u>1,699,419</u>	
Total unrestricted	2,163,983	

Temporarily restricted

	<u>15,000</u>	
Total net assets		<u>2,178,983</u>

Total liabilities and net assets		<u>\$ 2,600,453</u>
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HUDSON RIVER SLOOP CLEARWATER, INC.**STATEMENT OF ACTIVITIES**

Year ended November 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains and other support			
Individual donations	\$ 734,004	\$ -	\$ 734,004
Corporate, foundation and government support	1,089,010	5,000	1,094,010
Education program	332,641	-	332,641
Community program	1,072,874	-	1,072,874
Miscellaneous	8,695	-	8,695
Gain on disposal of assets	23,787	-	23,787
Loss on investments	(752)	-	(752)
Change in beneficial interest in assets held by a community foundation	30,172	-	30,172
	<u>3,290,431</u>	<u>5,000</u>	<u>3,295,431</u>
Net assets released from restriction	-	-	-
Total revenue, gains and other support	<u>3,290,431</u>	<u>5,000</u>	<u>3,295,431</u>
Expenses			
Program services:			
Communication	75,782	-	75,782
Education	281,184	-	281,184
Environmental action	289,354	-	289,354
Community programs	968,212	-	968,212
Vessels	369,448	-	369,448
Total program services	<u>1,983,980</u>	<u>-</u>	<u>1,983,980</u>
Supporting services:			
Management and general expenses	260,559	-	260,559
Fundraising expenses	201,987	-	201,987
Total expenses	<u>2,446,526</u>	<u>-</u>	<u>2,446,526</u>
Change in net assets	<u>843,905</u>	<u>5,000</u>	<u>848,905</u>
Net assets, beginning of year, as previously reported	1,300,437	10,000	1,310,437
Prior period adjustment (Note 16)	<u>19,641</u>	<u>-</u>	<u>19,641</u>
Net assets, beginning of year, as restated	<u>1,320,078</u>	<u>10,000</u>	<u>1,330,078</u>
Net assets, end of year	<u>\$ 2,163,983</u>	<u>\$ 15,000</u>	<u>\$ 2,178,983</u>

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

HUDSON RIVER SLOOP CLEARWATER, INC.**STATEMENT OF CASH FLOWS****Year ended November 30, 2012****Cash flows from operating activities**

Change in net assets		\$ 848,905
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Depreciation	\$ 100,354	
Unrealized loss on investments	1,350	
Realized gain on investments	(274)	
Non-cash contribution of services and material, home port	(249,000)	
Non-cash contribution of securities	(13,130)	
Non-cash contribution of services, sale of property	(3,250)	
Change in beneficial interest in assets held at a community foundation	(30,172)	
Gain on disposal of assets	(23,787)	
<i>(Increase)/decrease in</i>		
Grants and accounts receivable	(137,380)	
Pledges receivable	2,205	
Prepaid rent	13,248	
Prepaid insurance	(7,478)	
Merchandise inventory	83	
<i>Increase in</i>		
Accounts payable	170,762	
Accrued expenses	5,668	
Refundable advances	14,749	
Deferred program revenue	23,810	(132,242)
Net cash provided by operating activities		716,663

Cash flows from investing activities

Proceeds from sale of investments	13,652	
Proceeds from sale of assets	28,771	
Purchase of fixed assets and construction in progress	(594,328)	
Cash transferred from community foundation fund	50,000	
Net cash used in investing activities		(501,905)

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

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENT OF CASH FLOWS, continued
Year ended November 30, 2012

Cash flows from financing activities

Repayment of line of credit	\$(125,000)	
Repayment of note payable	<u>(42,000)</u>	
Net cash used in financing activities		<u>\$ (167,000)</u>

Net increase in cash and cash equivalents	47,758
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Cash and cash equivalents, beginning of year	<u>20,618</u>
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Cash and cash equivalents, end of year	<u>\$ 68,376</u>
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Supplemental disclosure of cash flows information:

Cash paid during the year for interest	<u>\$ 12,265</u>
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HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS
November 30, 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, 2012.

The cost of providing the Organization's various programs, supporting services and fundraising has been summarized on a functional basis in the Statement 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.

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

Fair value measurements

The Organization follows Financial Accounting Standards Board Accounting Standards Codification 820 (ASC 820) "Fair Value Measurements." Under ASC 820 the Organization determines the fair market value of its financial instruments based on the fair value hierarchy established in the standard. 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 change to the valuation allowance and a credit to accounts receivable. As of November 30, 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, 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 Statement 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 year ended November 30, 2012 amounted to \$100,354.

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 Statement 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 Statement of Activities.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 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 year ended November 30, 2012 amounted to \$50,322.

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 Statement of Financial Position date. As of November 30, 2012, the Organization's federal tax filings for tax years 2009 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.

2. Pledge Receivable

Pledge receivable consists of the following as of November 30, 2012:

Unconditional pledge receivable	\$14,870
Less: Unamortized discount	<u>(2,036)</u>
Net unconditional pledge receivable	<u>\$12,834</u>
Amounts due in:	
Less than one year	\$ 2,974
One to five years	<u>11,896</u>
Total amounts due	<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 are considered necessary.

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

3. Investments and Investment Return

The Organization's investments were established in September 2011 as part of the board designated endowment fund. The cost and fair value of these investments as of November 30, 2012 are 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, 2012 is summarized as follows:

Interest and dividends	\$ 275
Unrealized loss	<u>(1,350)</u>
Total loss on investments	<u>\$ (1,075)</u>

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, 2012, the Beneficial Interest in Assets Held by a Community Foundation was \$371,864. The Organization's Beneficial Interest in Assets Held by Community Foundations of the Hudson Valley consists of transfers of assets of \$305,405 and accumulated interest and earnings, net of fees, of \$66,459.

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, 2012). The line of credit is collateralized by the general assets of the Organization. There were no amounts drawn on this line of credit at November 30, 2012.

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

6. Note Payable

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 matures in May 2017 and requires 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. Interest is at prime plus 1.55% (subject to a floor of 4.00%), 4.80% at November 30, 2012. The note is collateralized by the general assets of the Organization.

Maturities of long-term debt as of November 30, 2012 are as follows:

Year ending:	November 30, 2013	\$30,444
	November 30, 2014	30,444
	November 30, 2015	30,444
	November 30, 2016	<u>3,668</u>
Total		<u>\$95,000</u>

7. Board Designated Endowment

During 2010 and 2011 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, 2012

7. Board Designated Endowment, continued

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

	<u>Unrestricted</u>
Board designated endowment net assets, beginning of year	\$485,467
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, end of year	<u>\$464,564</u>

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consists of the following at November 30, 2012:

Environmental education programs	<u>\$15,000</u>
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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, was \$252,250 for the year ended November 30, 2012. This amount has been included in individual donations on the Statement 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.

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

10. Fair Value Measurements

Fair value of assets measured on a recurring basis as of November 30, 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)
Certificates of deposit	\$ 92,700	\$ -	\$ 92,700	\$ -
Beneficial interest in assets held by a community foundation	<u>371,864</u>	<u>-</u>	<u>-</u>	<u>371,864</u>
Total	<u>\$464,564</u>	<u>\$ -</u>	<u>\$ 92,700</u>	<u>\$ 371,864</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 the market approach. The beneficial interest is not actively traded and significant other inputs are not available, therefore, the fair value is equal to the value reported to the Organization by the Foundation.

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, 2012.

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

10. Fair Value Measurements, continued

The following table sets forth a summary of changes in Level 3 assets and liabilities measured on a recurring basis for the year ended November 30, 2012:

Balance November 30, 2011	\$391,692
Change in beneficial interest in assets held by a community foundation	30,172
Distributions from	<u>(50,000)</u>
Balance November 30, 2012	<u>\$371,864</u>

11. Operating Lease

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, 2012 amounted to \$71,137. Rent expense for the year ended November 30, 2012 amounted to \$14,400.

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	\$110,000
Contribution of building materials	<u>139,000</u>
Total	<u>\$249,000</u>

13. Concentrations and 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.

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 Statement 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, 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.

16. Prior Period Adjustment

During fiscal 2012, the Organization determined that transactions related to the recording of prepaid rent and related rent expense in prior years had not been properly reflected in previously issued financial statements. Accordingly, adjustments were recorded to unrestricted, undesignated net assets as of November 30, 2011 to properly account for these transactions. The effect of the adjustment was as follows:

Increase prepaid rent	\$84,385
Decrease leasehold improvements	92,142
Decrease accumulated depreciation	27,398
Increase unrestricted net assets	19,641

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

17. Subsequent Events

Management has evaluated subsequent events through April 11, 2013, which is the date the financial statements are available for issuance.

SUPPLEMENTARY INFORMATION

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

	Program Services				Supporting Services			
	Communications	Education	Environmental Action	Community Programs	Vessels	Management & General	Fundraising	Total
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	\$ 75,782	\$ 281,184	\$ 289,354	\$ 968,212	\$ 369,448	\$ 260,559	\$ 201,987	\$ 2,446,526

See independent auditor's report.