

**HUDSON RIVER SLOOP CLEARWATER, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEARS ENDED NOVEMBER 30, 2014 AND 2013**

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

To the Board of Directors of

Beacon, New York

We have audited the accompanying financial statements of (a nonprofit organization) which comprise the statements of financial position as of , 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 , 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.

## **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 19-20 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 10, 2015  
Poughkeepsie, New York

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**November 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,404	\$ 57,695
Grants and accounts receivable	75,826	227,279
Pledge receivable, current	2,974	2,974
Prepaid rent, current	15,840	14,520
Prepaid insurance	18,421	15,640
Prepaid deposits	3,400	-
Merchandise inventory	<u>28,447</u>	<u>26,115</u>
Total current assets	<u>150,312</u>	<u>344,223</u>
<b>Property and equipment</b>		
Land	145,400	145,400
Leasehold improvements	813,771	813,771
Sloop, yawl, boat and boat equipment	1,766,687	1,806,848
Furniture and equipment	<u>95,555</u>	<u>86,966</u>
	2,821,413	2,852,985
Accumulated depreciation	<u>(952,523)</u>	<u>(943,672)</u>
Total property and equipment	<u>1,868,890</u>	<u>1,909,313</u>
<b>Other assets</b>		
Pledge receivable, long-term	4,569	7,543
Prepaid rent, long-term	32,487	44,217
Beneficial interest in assets held by a community foundation	<u>232,800</u>	<u>165,190</u>
Total other assets	<u>269,856</u>	<u>216,950</u>
Total assets	<u>\$ 2,289,058</u>	<u>\$ 2,470,486</u>

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**STATEMENTS OF FINANCIAL POSITION, continued**  
**November 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Line of credit	\$ 80,000	\$ 174,194
Current portion of notes payable	54,000	93,734
Accounts payable	71,539	86,531
Accrued expenses	15,675	12,995
Refundable advances	-	7,478
Deferred program revenue	<u>1,250</u>	<u>6,500</u>
Total current liabilities	222,464	381,432
<b>Long-term liabilities</b>		
Notes payable, net of current portion	<u>148,833</u>	<u>57,000</u>
Total liabilities	<u>371,297</u>	<u>438,432</u>
<b>Net assets</b>		
<i>Unrestricted</i>		
Board designated reserve for endowment	232,800	165,190
Undesignated	<u>1,633,235</u>	<u>1,855,052</u>
Total unrestricted	1,866,035	2,020,242
<i>Temporarily restricted</i>		
	<u>51,726</u>	<u>11,812</u>
Total net assets	<u>1,917,761</u>	<u>2,032,054</u>
Total liabilities and net assets	<u>\$ 2,289,058</u>	<u>\$ 2,470,486</u>

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**STATEMENTS OF ACTIVITIES**  
**Years ended November 30, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue, gains and other support</b>						
Individual donations	\$ 459,488	\$ -	\$ 459,488	\$ 454,087	\$ -	\$ 454,087
Corporate, foundation and government support	320,511	40,000	360,511	650,595	11,812	662,407
Education program	311,464	-	311,464	254,176	-	254,176
Community program	1,138,678	-	1,138,678	899,714	-	899,714
Miscellaneous	12,058	-	12,058	16,501	-	16,501
Income on investments	-	-	-	722	-	722
Change in beneficial interest in assets held by a community foundation	17,610	-	17,610	43,325	-	43,325
	2,259,809	40,000	2,299,809	2,319,120	11,812	2,330,932
Net assets released from restriction	86	(86)	-	15,000	(15,000)	-
Total revenue, gains and other support	2,259,895	39,914	2,299,809	2,334,120	(3,188)	2,330,932
<b>Expenses</b>						
Program services:						
Communications	80,981	-	80,981	95,322	-	95,322
Education	264,779	-	264,779	271,568	-	271,568
Environmental action	188,010	-	188,010	207,874	-	207,874
Community programs	967,052	-	967,052	955,447	-	955,447
Vessels	489,424	-	489,424	416,826	-	416,826
Total program services	1,990,246	-	1,990,246	1,947,037	-	1,947,037
Supporting services:						
Management and general expenses	231,885	-	231,885	319,596	-	319,596
Fundraising expenses	191,971	-	191,971	251,548	-	251,548
Total supporting services	423,856	-	423,856	571,144	-	571,144
Total expenses	2,414,102	-	2,414,102	2,518,181	-	2,518,181
<b>Change in net assets</b>	(154,207)	39,914	(114,293)	(184,061)	(3,188)	(187,249)
<b>Net assets, beginning of year</b>	2,020,242	11,812	2,032,054	2,204,303	15,000	2,219,303
<b>Net assets, end of year</b>	\$ 1,866,035	\$ 51,726	\$ 1,917,761	\$ 2,020,242	\$ 11,812	\$ 2,032,054

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

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years ended November 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (114,293)	\$ (187,249)
<i>Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities</i>		
Donated securities	(7,505)	(2,346)
Depreciation	138,723	130,733
Realized gain on investments	-	(150)
Change in beneficial interest in assets held by a community foundation	(17,610)	(43,325)
Proceeds from sale of donated securities	7,505	2,346
<i>(Increase)/decrease in</i>		
Grants and accounts receivable	151,453	69,145
Pledge receivable	2,974	2,317
Prepaid rent	10,410	12,400
Prepaid insurance	(2,781)	5,649
Prepaid deposits	(3,400)	-
Merchandise inventory	(2,332)	10,183
<i>Increase/(decrease) in</i>		
Accounts payable	(14,992)	(184,001)
Accrued expenses	2,680	(3,383)
Refundable advances	(7,478)	(8,272)
Deferred program revenue	<u>(5,250)</u>	<u>(17,310)</u>
Net cash provided by/(used in) operating activities	<u>138,104</u>	<u>(213,263)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	-	92,848
Purchase of fixed assets	(98,300)	(370,194)
Net cash transferred (to)/from community foundation fund	<u>(50,000)</u>	<u>250,000</u>
Net cash used in investing activities	<u>(148,300)</u>	<u>(27,346)</u>



**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**STATEMENTS OF CASH FLOWS, continued**  
**Years ended November 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from financing activities</b>		
Advances on line of credit	\$ 80,000	\$ 417,120
Repayments of line of credit	-	(242,926)
Proceeds from notes payable	806	74,734
Repayments of notes payable	<u>(122,901)</u>	<u>(19,000)</u>
Net cash provided by/(used in) financing activities	<u>(42,095)</u>	<u>229,928</u>
Net decrease in cash and cash equivalents	(52,291)	(10,681)
<b>Cash and cash equivalents, beginning of year</b>	<u>57,695</u>	<u>68,376</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 5,404</u>	<u>\$ 57,695</u>
<b>Supplemental disclosure of cash flows information:</b>		
Cash paid during the years for interest	<u>\$ 14,239</u>	<u>\$ 12,479</u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Proceeds from notes payable used to repay line of credit	<u>\$ 174,194</u>	<u>\$ -</u>

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**November 30, 2014 and 2013**

**1. Nature of Activities and Summary of Significant Accounting Policies**

*Nature of organization*

Hudson River Sloop Clearwater, Inc. (the “Organization”) is a nonprofit, 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, 2014 and 2013.

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, 2014 and 2013**

**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 an original 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, 2014 and 2013, 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, 2014 and 2013**

**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 in excess of \$500 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, 2014 and 2013 amounted to \$138,723 and \$130,733, 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, 2014 and 2013**

**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, 2014 and 2013 amounted to \$43,710 and \$59,313, respectively.

*Income taxes*

The Organization is a nonprofit 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, 2014, the Organization's federal tax filings for tax years 2011 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:

	<u>2014</u>	<u>2013</u>
Unconditional pledge receivable	\$ 8,922	\$ 11,896
Less: Unamortized discount	<u>(1,379)</u>	<u>(1,379)</u>
Net unconditional pledge receivable	<u>\$ 7,543</u>	<u>\$ 10,517</u>
Amounts due in:		
Less than one year	\$ 2,974	\$ 2,974
One to five years	<u>5,948</u>	<u>8,922</u>
Total amounts due	<u>\$ 8,922</u>	<u>\$ 11,896</u>

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**2. Pledge Receivable, continued**

Unconditional pledges 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. Investment return for the year ended November 30, 2013 consisted of realized gains of \$150 and \$572 of interest on funds held in money market accounts.

**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 nonprofit 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, 2014 and 2013, the Beneficial Interest in Assets Held by a Community Foundation amounted to \$232,800 and \$165,190, respectively. As of November 30, 2014, the Organization's Beneficial Interest in Assets Held by Community Foundations of the Hudson Valley consists of transfers of assets in of \$405,405, accumulated interest and earnings, net of fees, of \$127,395, and transfers of assets out of \$300,000.

**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, 2014 and 2013. The line of credit is collateralized by the general assets of the Organization. There was \$80,000 and \$174,194 outstanding on this line of credit at November 30, 2014 and 2013, respectively.

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**6. Notes Payable**

	<u>2014</u>	<u>2013</u>
<i>M&amp;T Bank Multiple Disbursement Term Note</i>		
The Organization had a multiple disbursement term note with total available funds in the amount of \$75,000. The unpaid principal balance was due on or before July, 2014 after which advances on this note are no longer be permitted. Interest was at prime less 0.25%, 3.00% at November 30, 2013. The note was 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. The note was repaid in full during the year ended November 30, 2014.	\$ -	\$ 74,734
<i>M&amp;T Bank Term Note 1</i>		
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.		
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 and interest at prime plus 1.05% (subject to a floor of 4.00%). At November 30, 2014 and 2013, interest is 4.30%. The note is collateralized by the general assets of the Organization.	57,000	76,000

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**6. Notes Payable, continued**

	<u>2014</u>	<u>2013</u>
<i>M&amp;T Bank Term Note 2</i>		
The Organization entered into a term note effective January, 2014 with an original balance of \$175,000. The note matures January, 2019 with monthly installments of principal in the amount of \$2,917 and interest at prime plus 0.60% (3.85% at November 30, 2014). The note is collateralized by the general assets of the Organization.	\$ 145,833	\$ -
	202,833	150,734
Current maturities	<u>(54,000)</u>	<u>(93,734)</u>
Total	<u>\$ 148,833</u>	<u>\$ 57,000</u>

Maturities of notes payable as of November 30, 2014 are as follows:

Year ending:	November 30, 2015	\$ 54,000
	November 30, 2016	54,000
	November 30, 2017	54,000
	November 30, 2018	35,000
	November 30, 2019	<u>5,833</u>
Total		<u>\$ 202,833</u>

**7. Board Designated Endowment**

The Board of Directors originally 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 was 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.



**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**7. Board Designated Endowment, continued**

The Investment held for endowment purposes does not have a formal investment or spending policy. The Investment consisted of certificates of deposit and were fully distributed during the year ended November 30, 2013 for Sloop restoration.

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.

Composition of and changes in endowment net assets for the years ended November 30, 2014 and 2013 were as follows:

	<b><u>Unrestricted</u></b>
Board designated endowment net assets, December 1, 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	165,190
Year ended November 30, 2014 period change:	
Net increase in beneficial interest in assets held by a community foundation	17,610
Additions to endowment	<u>50,000</u>
Board designated endowment net assets, November 30, 2014	<u>\$ 232,800</u>

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**8. Temporarily Restricted Net Assets**

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

	<u>2014</u>	<u>2013</u>
Sloop restoration	\$ 40,000	\$ -
Environmental education programs	10,000	10,000
Board development and strategic planning	<u>1,726</u>	<u>1,812</u>
Total	<u>\$ 51,726</u>	<u>\$ 11,812</u>

**9. Fair Value Measurements**

Fair value of assets measured on a recurring basis as of November 30, 2014 and 2013 are as follows:

	<u>Fair Value Measurements Using:</u>			
<u>Fair Value</u>	<u>Quoted Market Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<i>November 30, 2014:</i>				
Beneficial interest in assets held by a community foundation	<u>\$232,800</u>	<u>\$ -</u>	<u>\$ 232,800</u>	<u>\$ -</u>
<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>

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

*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.

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, 2014 and 2013.

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**10. 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, 2014 and 2013 amounted to \$48,327 and \$58,737, 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 \$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 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 by the Organization. Depreciation expense related to this asset in the amount of approximately \$27,000 has been included in the Statement of Activities for each of the years presented.

**11. 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.

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**November 30, 2014 and 2013**

**12. 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.

**13. 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.

**14. Subsequent Events**

Management has evaluated subsequent events through April 10, 2015, 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, 2014**

	Program Services					Supporting Services		Total
	Communications	Education	Environmental Action	Community Programs	Vessels	Management & General	Fundraising	
Salaries	\$ 46,367	\$ 174,006	\$ 87,305	\$ 76,857	\$ 134,329	\$ 71,357	\$ 101,612	\$ 691,833
Employee benefits	10,577	42,570	20,419	28,496	45,689	15,830	22,660	186,241
Total personnel and related costs	56,944	216,576	107,724	105,353	180,018	87,187	124,272	878,074
Travel and conferences	405	4,700	1,527	6,722	4,567	1,366	657	19,944
Insurance	415	1,647	963	20,180	36,392	3,704	983	64,284
Printing	5,262	-	-	7,329	117	398	9,948	23,054
Equipment rental and maintenance	553	1,914	1,285	148,788	3,691	1,908	1,311	159,450
Leased vessel	-	-	-	13,000	49,250	-	-	62,250
Telephone	158	2,284	384	3,889	2,485	721	376	10,297
Postage	830	16	-	7,003	-	206	20,969	29,024
Professional services	177	7,725	28,880	23,616	16,399	76,336	5,594	158,727
Program consultants	11,848	13,577	41,822	460,300	7,425	1,961	16,871	553,804
Rent	501	1,627	1,164	5,836	2,356	1,728	1,188	14,400
Utilities	335	1,089	779	3,904	7,088	1,156	795	15,146
Merchandise inventory	-	-	-	37,240	-	926	(1,180)	36,986
Food	-	2,131	193	63,041	16,045	2,792	42	84,244
Operating supplies	289	4,563	2,267	12,136	22,802	1,696	242	43,995
Office supplies	279	719	667	3,669	1,010	823	918	8,085
Other rental fees	-	-	-	450	18,167	-	-	18,617
Advertising	2,940	2,519	105	37,141	160	491	354	43,710
Interest expense	-	-	-	-	1,167	12,084	988	14,239
Bank charges and investment fees	-	-	-	1,297	173	8,092	7,643	17,205
Registration, permits & licenses	-	1,246	250	2,308	10,389	625	-	14,818
Charitable contributions	-	-	-	3,500	-	-	-	3,500
Miscellaneous	45	96	-	350	850	185	-	1,526
Depreciation	-	2,350	-	-	108,873	27,500	-	138,723
Total expenses	<u>\$ 80,981</u>	<u>\$ 264,779</u>	<u>\$ 188,010</u>	<u>\$ 967,052</u>	<u>\$ 489,424</u>	<u>\$ 231,885</u>	<u>\$ 191,971</u>	<u>\$ 2,414,102</u>

See independent auditor's report.

**HUDSON RIVER SLOOP CLEARWATER, INC.**  
**SCHEDULES OF FUNCTIONAL EXPENSES, continued**  
**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.