

HUDSON RIVER SLOOP CLEARWATER, INC.

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEARS ENDED NOVEMBER 30, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 15 to the financial statements, the Organization has suffered recurring reductions in operating revenues and its net assets are represented entirely by fixed assets with essentially no liquid assets that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this 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 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 5, 2016
Poughkeepsie, New York

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF FINANCIAL POSITION
November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 65,002	\$ 5,404
Grants and accounts receivable	128,612	75,826
Contributions receivable, current	171,902	2,974
Prepaid rent, current	15,840	15,840
Prepaid insurance	24,345	18,421
Deposits	1,751	3,400
Merchandise inventory	<u>24,112</u>	<u>28,447</u>
Total current assets	<u>431,564</u>	<u>150,312</u>
Property and equipment		
Land	145,400	145,400
Leasehold improvements	813,771	813,771
Sloop, yawl, boat and boat equipment	1,946,133	1,766,687
Furniture and equipment	<u>95,555</u>	<u>95,555</u>
	3,000,859	2,821,413
Accumulated depreciation	<u>(1,091,618)</u>	<u>(952,523)</u>
Total property and equipment	<u>1,909,241</u>	<u>1,868,890</u>
Other assets		
Contributions receivable, long-term	2,546	4,569
Prepaid rent, long-term	19,762	32,487
Beneficial interest in assets held by a community foundation	<u>-</u>	<u>232,800</u>
Total other assets	<u>22,308</u>	<u>269,856</u>
Total assets	<u>\$ 2,363,113</u>	<u>\$ 2,289,058</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF FINANCIAL POSITION, continued
November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit	\$ 175,000	\$ 80,000
Current portion of notes payable	54,000	54,000
Loan payable, related party	9,654	-
Accounts payable	170,826	71,539
Accrued expenses	19,793	15,675
Deferred program revenue	<u>2,500</u>	<u>1,250</u>
Total current liabilities	431,773	222,464
Long-term liabilities		
Notes payable, net of current portion	<u>94,833</u>	<u>148,833</u>
Total liabilities	<u>526,606</u>	<u>371,297</u>
Net assets		
<i>Unrestricted</i>		
Board designated reserve for endowment	-	232,800
Undesignated	<u>1,836,507</u>	<u>1,633,235</u>
Total unrestricted	1,836,507	1,866,035
<i>Temporarily restricted</i>		
	<u>-</u>	<u>51,726</u>
Total net assets	<u>1,836,507</u>	<u>1,917,761</u>
Total liabilities and net assets	<u>\$ 2,363,113</u>	<u>\$ 2,289,058</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF ACTIVITIES
Years ended November 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenue, gains and other support						
Individual donations	\$ 415,580	\$ -	\$ 415,580	\$ 459,488	\$ -	\$ 459,488
Corporate, foundation and government support	282,513	-	282,513	223,185	40,000	263,185
Education program	291,183	-	291,183	311,464	-	311,464
Community program	1,007,449	-	1,007,449	1,153,155	-	1,153,155
Special events	81,685	-	81,685	-	-	-
Other income	18,518	-	18,518	12,058	-	12,058
	2,096,928	-	2,096,928	2,159,350	40,000	2,199,350
Net assets released from restriction	51,726	(51,726)	-	86	(86)	-
Total operating revenue, gains and other support	2,148,654	(51,726)	2,096,928	2,159,436	39,914	2,199,350
Operating expenses						
Program services:						
Communications	84,255	-	84,255	80,981	-	80,981
Education	304,984	-	304,984	264,779	-	264,779
Environmental action	165,536	-	165,536	188,010	-	188,010
Community programs	1,021,864	-	1,021,864	967,052	-	967,052
Vessels	498,558	-	498,558	489,424	-	489,424
Total program services	2,075,197	-	2,075,197	1,990,246	-	1,990,246
Supporting services:						
Management and general expenses	293,877	-	293,877	231,885	-	231,885
Fundraising expenses	303,824	-	303,824	191,971	-	191,971
Total supporting services	597,701	-	597,701	423,856	-	423,856
Total operating expenses	2,672,898	-	2,672,898	2,414,102	-	2,414,102
Change in net assets from operations	(524,244)	(51,726)	(575,970)	(254,666)	39,914	(214,752)
Other changes						
Sloop restoration revenue	122,655	-	122,655	82,849	-	82,849
Gifts from estates and trusts	375,665	-	375,665	-	-	-
Change in beneficial interest in assets held						
by a community foundation	(3,604)	-	(3,604)	17,610	-	17,610
Total other changes	494,716	-	494,716	100,459	-	100,459
Change in net assets	(29,528)	(51,726)	(81,254)	(154,207)	39,914	(114,293)
Net assets, beginning of year	1,866,035	51,726	1,917,761	2,020,242	11,812	2,032,054
Net assets, end of year	\$ 1,836,507	\$ -	\$ 1,836,507	\$ 1,866,035	\$ 51,726	\$ 1,917,761

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

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF CASH FLOWS
Years ended November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ (81,254)	\$ (114,293)
<i>Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities</i>		
Depreciation	139,095	138,723
Change in beneficial interest in assets held by a community foundation	3,604	(17,610)
Donated securities	(14,493)	(7,505)
Proceeds from sale of donated securities	14,493	7,505
<i>(Increase)/decrease in</i>		
Grants and accounts receivable	(52,786)	151,453
Contributions receivable	(166,905)	2,974
Prepaid rent	12,725	10,410
Prepaid insurance	(5,924)	(2,781)
Prepaid deposits	1,649	(3,400)
Merchandise inventory	4,335	(2,332)
<i>Increase/(decrease) in</i>		
Accounts payable	99,287	(14,992)
Accrued expenses	4,118	2,680
Refundable advances	-	(7,478)
Deferred program revenue	<u>1,250</u>	<u>(5,250)</u>
Net cash provided by/(used in) operating activities	<u>(40,806)</u>	<u>138,104</u>
Cash flows from investing activities		
Purchase of fixed assets	(179,446)	(98,300)
Net cash transferred (to)/from community foundation fund	<u>229,196</u>	<u>(50,000)</u>
Net cash provided by/(used in) investing activities	<u>49,750</u>	<u>(148,300)</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
STATEMENTS OF CASH FLOWS, continued
Years ended November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from financing activities		
Advances on line of credit	\$ 275,000	\$ 80,000
Repayments of line of credit	(180,000)	-
Proceeds from notes payable	-	806
Repayments of notes payable	(54,000)	(122,901)
Proceeds from loan payable, related party	9,654	-
Net cash provided by/(used in) financing activities	<u>50,654</u>	<u>(42,095)</u>
Net increase/(decrease) in cash and cash equivalents	59,598	(52,291)
Cash and cash equivalents, beginning of year	<u>5,404</u>	<u>57,695</u>
Cash and cash equivalents, end of year	<u>\$ 65,002</u>	<u>\$ 5,404</u>
Supplemental disclosure of cash flows information:		
Cash paid during the years for interest	<u>\$ 17,111</u>	<u>\$ 14,239</u>
Supplemental disclosure of non-cash investing and financing activities		
Proceeds from notes payable used to repay line of credit	<u>\$ -</u>	<u>\$ 174,194</u>
Donated securities	<u>\$ 14,493</u>	<u>\$ 7,505</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS
November 30, 2015 and 2014

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, 2015 and 2014.

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 the beneficial interest in assets held by a community foundation.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

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, 2015 and 2014, management has determined that an allowance is not necessary.

Contributions 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, 2015 and 2014

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, 2015 and 2014 amounted to \$139,095 and \$138,723, 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.

Advertising

The Organization follows the policy of charging costs of advertising to expense as incurred. Advertising expense for the years ended November 30, 2015 and 2014 amounted to \$59,151 and \$43,710, respectively.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

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

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.

Reclassifications

Certain 2014 amounts have been reclassified to conform with the 2015 presentation. Such reclassifications had no effect on the change in net assets.

2. Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities and excludes any contribution or grant revenues whose expenses are capitalized in the current year, contributions from estates and trusts and the change in beneficial interest in assets held by a community foundation.

3. Contributions Receivable

Contributions receivable consists of the following as of November 30:

	<u>2015</u>	<u>2014</u>
Gifts from estates and trusts	\$ 153,927	\$ -
Board member	15,000	-
Other	<u>5,948</u>	<u>8,922</u>
Total	174,875	8,922
Less: Unamortized discount	<u>(427)</u>	<u>(1,379)</u>
Net contributions receivable	<u>\$ 174,448</u>	<u>\$ 7,543</u>
Amounts due in:		
Less than one year	\$ 171,902	\$ 2,974
One to five years	<u>2,973</u>	<u>5,948</u>
Total amounts due	<u>\$ 174,875</u>	<u>\$ 8,922</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

3. Contributions Receivable, continued

Other unconditional contributions 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 contributions receivable is fully collectible; therefore, no allowance for uncollectible accounts is considered necessary.

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. During the year ended November 30, 2015, the fair value of the Beneficial Interest in Assets Held by a Community Foundation was transferred out for the purpose of enabling the Organization to renovate a capital asset. Therefore, the Organization had no Beneficial Interest in Assets Held by a Community Foundation at November 30, 2015. As of November 30, 2014, the Beneficial Interest in Assets Held by a Community Foundation amounted to \$232,800. 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, 2015 and 2014. The line of credit is collateralized by the general assets of the Organization. There was \$175,000 and \$80,000 outstanding on this line of credit at November 30, 2015 and 2014, respectively. See Note 16.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

6. Notes Payable

	<u>2015</u>	<u>2014</u>
<i>M&T Bank Term Note 1</i>		
<p>The Organization had a term note with an original balance of \$162,000 and an interest rate of prime plus 0.75% 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.</p> <p>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, 2015 and 2014, interest is 4.30%. The note is collateralized by the general assets of the Organization. See Note 16.</p>		
	\$ 38,000	\$ 57,000
<i>M&T Bank Term Note 2</i>		
<p>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, 2015 and 2014). The note is collateralized by the general assets of the Organization. See Note 16.</p>		
	<u>110,833</u>	<u>145,833</u>
	148,833	202,833
Current maturities	<u>(54,000)</u>	<u>(54,000)</u>
Total	<u>\$ 94,833</u>	<u>\$148,833</u>

Maturities of notes payable as of November 30, 2015 are as follows:

Year ending:	November 30, 2016	\$ 54,000
	November 30, 2017	54,000
	November 30, 2018	35,000
	November 30, 2019	<u>5,833</u>
Total		<u>\$ 148,833</u>

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

7. Loan Payable, Related Party

During the year ended November 30, 2015, the Organization's Executive Director loaned the Organization \$7,000 and forewent his own paycheck in the gross amount of \$3,654 in order for the Organization to meet its payroll obligations for the respective pay period. The Executive Director chose to consider \$1,000 of this total loan to be a contribution to the Organization, therefore, at November 30, 2015, the Organization had \$9,654 payable to the related party. There were no formal repayment terms or stated interest rate for this amount which was repaid in full subsequent to year end.

8. 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 was 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") which was fully distributed during the year ended November 30, 2013.

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.

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 had been retained in the Fund. The Fund is administered by the Foundation and follows the Foundation's investment policy and had its funds invested in the Foundation's Socially Responsible Investment Fund. The Fund was fully distributed during the year ended November 30, 2015 for Sloop restoration.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

8. Board Designated Endowment, continued

Composition of and changes in endowment net assets for the years ended November 30, 2015 and 2014 were as follows:

	<u>Unrestricted</u>
Board designated endowment net assets, December 1, 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	232,800
Year ended November 30, 2015 period change:	
Net decrease in beneficial interest in assets held by a community foundation	(3,604)
Distributions for Sloop Restoration	<u>(229,196)</u>
Board designated endowment net assets, November 30, 2015	<u>\$ -</u>

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consists of the following at November 30, 2014:

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

There were no temporarily restricted net assets at November 30, 2015.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

10. Fair Value Measurements

Fair value of assets measured on a recurring basis as of November 30, 2014 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, 2014:</i>				
Beneficial interest in assets held by a community foundation	<u>\$232,800</u>	<u>\$ -</u>	<u>\$ 232,800</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 were no assets measured at fair value as of November 30, 2015.

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 with the first increase effective November 2014. 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, 2015 and 2014 amounted to \$35,602 and \$48,327, respectively. Rent expense for each of the years ending November 30, 2015 and 2014 amounted to \$15,960 and \$14,400, respectively.

HUDSON RIVER SLOOP CLEARWATER, INC.
NOTES TO FINANCIAL STATEMENTS, continued
November 30, 2015 and 2014

11. Operating Leases, continued

Kingston Home Port

The Organization leases a building under an operating lease with the Hudson River Maritime Museum. The lease is for a 10 year initial term through December, 2023 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.

12. 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.

13. 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.

14. 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, 2015 and 2014

15. Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Organization has suffered decreases in unrestricted net assets for four of the last five years, recurring reductions in operating revenues and as of November 30, 2015 its net assets are represented entirely by fixed assets with essentially no liquid assets. Based on these factors, the Organization's cash flows may not be sufficient to timely satisfy its current liabilities.

The Organization's ability to meet its current obligations as they become due is dependent on improving operations. Management has been actively meeting with an outside financial analyst to focus on the areas in need of improvement and currently, management is developing plans to generate increased operating revenues and reduce operating costs. Management has also refinanced the Organization's debt into a new debt instrument with longer repayment terms and a lower interest rate.

The ability of the Organization to continue as a going concern is dependent upon the success of these efforts. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

16. Subsequent Events

Management has evaluated subsequent events through April 5, 2016, which is the date the financial statements are available for issuance.

Effective January 2016, the Organization entered into an agreement to refinance the outstanding balances on their existing line of credit and two term notes through a term note payable to Ulster Savings Bank in the total amount of \$333,000. The note matures January 2023 with monthly installments of \$4,590 including interest at 4.25%. The note is collateralized by the general assets of the Organization

Effective January 2016, the Organization entered into a second agreement with Ulster Savings Bank for a \$100,000 line of credit. As of the date of the independent auditor's report, there was \$25,000 outstanding on this line.

Effective December 2015, the Organization received a cash flow loan in the amount of \$50,000 from the Dyson Foundation. The loan must be repaid no later than June 30, 2016.

SUPPLEMENTARY INFORMATION

HUDSON RIVER SLOOP CLEARWATER, INC.
SCHEDULES OF FUNCTIONAL EXPENSES
Year ended November 30, 2015

	Program Services				Supporting Services			Total
	Communications	Education	Environmental Action	Community Programs	Vessels	Management & General	Fundraising	
Salaries	\$ 49,995	\$ 211,609	\$ 103,031	\$ 91,754	\$ 167,803	\$ 114,251	\$ 138,890	\$ 877,333
Employee benefits	8,153	33,922	17,220	24,702	29,906	18,472	22,677	155,052
Total personnel and related costs	58,148	245,531	120,251	116,456	197,709	132,723	161,567	1,032,385
Travel and conferences	87	8,519	955	5,792	3,653	468	985	20,459
Insurance	496	1,935	974	20,558	38,028	4,174	1,899	68,064
Printing	9,408	276	540	6,989	-	72	15,387	32,672
Equipment rental and maintenance	628	2,453	1,235	163,672	10,732	2,224	2,408	183,352
Leased vessel	-	-	-	12,400	60,245	-	-	72,645
Telephone	146	4,015	286	3,019	2,936	915	558	11,875
Postage	4,146	269	120	1,059	282	888	9,523	16,287
Professional services	-	9,654	20,779	500	11,902	79,800	367	123,002
Program consultants	5,694	12,581	16,095	512,584	6,388	3,950	70,381	627,673
Rent	427	1,668	839	5,181	1,967	4,241	1,637	15,960
Utilities	202	789	397	2,451	4,872	701	774	10,186
Merchandise inventory	-	84	-	34,587	-	3,523	-	38,194
Food	155	1,926	288	63,974	17,533	3,093	2,453	89,422
Operating supplies	550	11,378	2,085	14,985	24,859	799	1,459	56,115
Office supplies	205	1,370	414	3,388	1,005	2,679	1,055	10,116
Other rental fees	-	-	-	300	3,000	450	-	3,750
Advertising	3,963	-	278	54,275	401	154	80	59,151
Interest expense	-	-	-	-	505	15,711	895	17,111
Bank charges and investment fees	-	191	-	(3,995)	-	9,313	10,511	16,020
Registration, permits & licenses	-	10	-	3,244	2,006	625	-	5,885
Special events	-	-	-	-	-	-	21,195	21,195
Miscellaneous	-	900	-	445	-	249	690	2,284
Depreciation	-	1,435	-	-	110,535	27,125	-	139,095
Total expenses	<u>\$ 84,255</u>	<u>\$ 304,984</u>	<u>\$ 165,536</u>	<u>\$ 1,021,864</u>	<u>\$ 498,558</u>	<u>\$ 293,877</u>	<u>\$ 303,824</u>	<u>\$ 2,672,898</u>

See independent auditor's report.

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

