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THE HUDSON RIVER MUSEUM OF WESTCHESTER

Audited Financial Statements

June 30, 2010

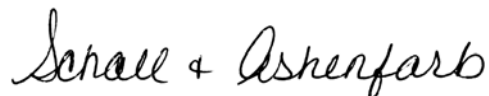
REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
The Hudson River Museum of Westchester

We have audited the accompanying statement of financial position of The Hudson River Museum of Westchester ("the Museum") as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Museum's June 30, 2009 financial statements and, in our report dated January 14, 2010 we expressed an unqualified opinion on those financial statements.

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 misstatements. 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 The Hudson River Museum of Westchester as of June 30, 2010, 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.



Schall & Ashenfarb
Certified Public Accountants, LLC

March 3, 2011

THE HUDSON RIVER MUSEUM OF WESTCHESTER
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2010

(With comparative totals for June 30, 2009)

	6/30/10	6/30/09
Assets		
Cash and cash equivalents (Notes 1d and 1e)	\$274,892	\$297,189
Investments (Notes 1f and 4)	2,354,257	2,260,034
Pledges receivable (Notes 1g and 5)	72,383	200,442
Government grants receivable	133,343	182,148
Accounts receivable	90,702	21,855
Prepaid expenses and other current assets	84,361	159,855
Inventory	47,673	36,343
Fixed assets, at cost (net of accumulated depreciation) (Notes 1h and 6)	785,553	851,800
 Total assets	 \$3,843,164	 \$4,009,666
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$155,708	\$281,644
Accrued compensation and vacation	139,881	133,081
Loans payable (Note 7)	179,168	172,129
Government grant advances (Note 1c)	188,804	217,852
 Total liabilities	 663,561	 804,706
Net assets: (Note 1b)		
Unrestricted	2,001,242	1,991,495
Temporarily restricted (Note 2)	389,170	424,274
Permanently restricted (Note 3)	789,191	789,191
 Total net assets	 3,179,603	 3,204,960
 Total liabilities and net assets	 \$3,843,164	 \$4,009,666

The attached notes and auditors' report are an integral part of these financial statements.

THE HUDSON RIVER MUSEUM OF WESTCHESTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(With comparative totals for the year ended June 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 6/30/10</u>	<u>Total 6/30/09</u>
Revenue and public support:					
Government grants (including in-kind rent) (Notes 1c and 1j)	\$2,052,066			\$2,052,066	\$2,090,418
Contributions	351,000	\$200,000		551,000	537,416
Special events revenue (net of direct benefits to donors of \$95,245)	192,360			192,360	197,655
Admissions	126,915			126,915	130,438
Membership	32,135			32,135	30,868
Auxiliary activities	49,779			49,779	42,030
Interest and dividends	88,206			88,206	96,395
	<u>2,892,461</u>	<u>200,000</u>	<u>0</u>	<u>3,092,461</u>	<u>3,125,220</u>
Net assets released from restrictions:					
Satisfaction of time and program restrictions	235,104	(235,104)		0	0
Total revenue and public support	<u>3,127,565</u>	<u>(35,104)</u>	<u>0</u>	<u>3,092,461</u>	<u>3,125,220</u>
Expenses:					
Program services	2,567,810			2,567,810	2,578,128
Supporting services:					
Management and general	517,220			517,220	535,762
Fundraising	205,630			205,630	199,433
Total supporting services	<u>722,850</u>	<u>0</u>	<u>0</u>	<u>722,850</u>	<u>735,195</u>
Total expenses	<u>3,290,660</u>	<u>0</u>	<u>0</u>	<u>3,290,660</u>	<u>3,313,323</u>
Change in net assets from operations	(163,095)	(35,104)	0	(198,199)	(188,103)
Non-operating activities:					
Investment gains/(losses)	172,842			172,842	(517,412)
Change in net assets	9,747	(35,104)	0	(25,357)	(705,515)
Net assets - beginning of year	<u>1,991,495</u>	<u>424,274</u>	<u>789,191</u>	<u>3,204,960</u>	<u>3,910,475</u>
Net assets - end of year	<u>\$2,001,242</u>	<u>\$389,170</u>	<u>\$789,191</u>	<u>\$3,179,603</u>	<u>\$3,204,960</u>

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THE HUDSON RIVER MUSEUM OF WESTCHESTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010
(With comparative totals for the year ended June 30, 2009)

	Program Services							Supporting Services			Total Expenses 6/30/10	Total Expenses 6/30/09	
	Exhibition and Curatorial	Planetarium	Education	Public Programs	Maintenance	Security	Auxiliary Services	Total	Management and General	Fundraising			Total
Salaries	\$363,806	\$57,100	\$325,544	\$249,598	\$29,441	\$34,554		\$1,060,043	145,675	\$110,393	\$256,068	\$1,316,111	\$1,394,697
Payroll taxes and benefits	76,362	11,985	68,331	52,390	6,180	7,253		222,501	30,576	23,171	53,747	276,248	282,709
Rent (including in-kind - Note 1j)	237,172	26,190	54,051	132,621			\$76,341	526,375	41,235	8,358	49,593	575,968	576,579
Professional fees	19,632	7,050	54,368	162,005	13,918	3,110	14,515	274,598	56,893	21,452	78,345	352,943	353,513
Travel	2,381	98	15,540	11,247		242		29,508	9,104	1,261	10,365	39,873	40,309
Supplies	4,210	1,187	10,446	5,067	39,985	1,443	781	63,119	6,369	1,770	8,139	71,258	69,421
Repairs and maintenance	3,279	1,568	1,796	6,155	39,837	13,883	128	66,646	18,520		18,520	85,166	71,973
Telephone								0	5,059		5,059	5,059	10,611
Printing	2,354		3,454	3,605			27,370	36,783		20,589	20,589	57,372	56,532
Postage and shipping	29,706	16	7,987	1,258	745	57	7,621	47,390	13,964	3,406	17,370	64,760	48,794
Exhibits	108,384							108,384			0	108,384	113,944
Insurance	11,698							11,698	44,321		44,321	56,019	56,447
Indirect special event								0		11,987	11,987	11,987	5,387
Advertising								0	20,010		20,010	20,010	23,873
Bad debt expense								0	25,000		25,000	25,000	0
Dues and subscriptions	299	193	90					582	9,048	1,071	10,119	10,701	12,964
Interest and bank fees								0	45,716		45,716	45,716	46,514
Other	10,230	600	8,300	293	34		344	19,801	27,965	2,172	30,137	49,938	39,619
Total expenses before depreciation and amortization	869,513	105,987	549,907	624,239	130,140	60,542	127,100	2,467,428	499,455	205,630	705,085	3,172,513	3,203,886
Depreciation and amortization				100,382				100,382	17,765		17,765	118,147	109,437
Total expenses	<u>\$869,513</u>	<u>\$105,987</u>	<u>\$549,907</u>	<u>\$724,621</u>	<u>\$130,140</u>	<u>\$60,542</u>	<u>\$127,100</u>	<u>\$2,567,810</u>	<u>\$517,220</u>	<u>\$205,630</u>	<u>\$722,850</u>	<u>\$3,290,660</u>	<u>\$3,313,323</u>

The attached notes and auditors' report are an integral part of these financial statements.

THE HUDSON RIVER MUSEUM OF WESTCHESTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
(With comparative totals for the year ended June 30, 2009)

	<u>6/30/10</u>	<u>6/30/09</u>
Cash flows from operating activities:		
Change in net assets	(\$25,357)	(\$705,515)
Adjustments to reconcile changes in net assets to net cash provided by/(used for) operating activities:		
Depreciation and amortization	118,147	109,437
Realized (gain)/loss on investments	(33,913)	398,034
Unrealized (gain)/loss on investments	(138,929)	119,378
(Increase)/decrease in:		
Pledges receivable	128,059	21,288
Government grants receivable	48,805	29,530
Accounts receivable	(68,847)	3,479
Prepaid expenses and other current assets	75,494	(38,280)
Inventory	(11,330)	(6,499)
Increase/(decrease) in:		
Accounts payable and accrued expenses	(125,936)	(44,749)
Accrued compensation and vacation	6,800	(25,269)
Government grant advances	(29,048)	(20,000)
Total adjustments	<u>(30,698)</u>	<u>546,349</u>
Net cash used for operating activities	<u>(56,055)</u>	<u>(159,166)</u>
Cash flows from investing activities:		
Acquisition of property, equipment and leasehold improvements	(51,900)	(110,624)
Sale of investments	1,582,681	1,899,972
Purchase of investments	<u>(1,504,062)</u>	<u>(1,817,661)</u>
Net cash provided by/(used for) investing activities	<u>26,719</u>	<u>(28,313)</u>
Cash flows from financing activities:		
Repayments from loan payable	(450,000)	0
Proceeds from loan payable	457,039	6,206
Net cash provided by financing activities	<u>7,039</u>	<u>6,206</u>
Net decrease in cash and cash equivalents	(22,297)	(181,273)
Cash and cash equivalents - beginning of year	<u>297,189</u>	<u>478,462</u>
Cash and cash equivalents - end of year	<u><u>\$274,892</u></u>	<u><u>\$297,189</u></u>
Supplemental data:		
Interest paid - \$7,094		
Taxes paid - \$0		

The attached notes and auditors' report are an integral part of these financial statements.

THE HUDSON RIVER MUSEUM OF WESTCHESTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 - Organization and Summary of Significant Accounting Policies

a. Organization

The Hudson River Museum of Westchester (“the Museum”) operates a museum in Yonkers, New York, providing cultural and education activities to the residents of the community.

The Museum is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

b. Basis of Accounting and Financial Statement Presentation

The financial statements of the Museum have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Revenue is recorded when earned and expenses are recognized when incurred.

The Museum reports information regarding its financial position and activities according to the following classes of net assets:

- *Unrestricted* – represents all activity without donor imposed restrictions as to their use.
- *Temporarily restricted* – accounts for activity based on specific donor restrictions that are expected to be satisfied by passage of time or performance of activities.
- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity.

c. Revenue Recognition

The Museum reports contributions at the time a pledge becomes unconditional in nature. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. However, when a restriction is met in the period the contribution is received, it is recorded as unrestricted.

Government grants are treated as exchange transactions because they do not meet the definition of contributions. Grant funds received are recorded as advances until they have been earned, at which time they are recognized as revenue.

d. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all highly liquid investments purchased with initial maturities of three months or less to be cash and cash equivalents excluding those held in investment accounts.

e. Concentration of Credit Risk

Financial instruments which potentially subject the Museum to concentration of credit risk consist of cash, money market accounts and investment securities. The Museum places its cash and investments with financial institutions that they deem to be credit-worthy, which at times, may exceed federally insured limits. At year end, the Museum did not have any uninsured balances, nor have they experienced any losses due to failure of a financial institution.

f. Investments

Securities are reflected at fair market value. Realized and unrealized gains and losses are reflected in the statement of activities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

g. Pledges Receivable

Pledges that are due in more than one year are recorded at fair value, using a risk adjusted discount rate of return. Pledges due within one year are reported at their net realizable value. Based on historical trends, management feels that all pledges are collectable and has not established a reserve for uncollectible amounts.

h. Inventory

Inventory consists of items held for resale in the Museum's gift shop and has been valued at the lower of cost (first-in, first-out method) or market.

i. Fixed Assets

Property, equipment and leasehold improvements that are purchased and have a useful life greater than one year are capitalized at cost. Depreciation and amortization expense is provided on a straight-line basis over the estimated lives of the assets.

j. In-Kind Contributions

The Museum recognizes contributions of services that either a) create or enhance non-financial assets or b) require specialized skills, are performed by those who possess those skills and would have been purchased if not donated. Many individuals volunteer their time and perform a variety of tasks that assist the Museum; however, these volunteer services have not been recognized in the financial statements as they do not meet the criteria outlined above.

The Museum leases the land and building in which it operates from the City of Yonkers for \$1 per year. The cost of using these facilities, estimated at \$557,230, has been recorded as an in-kind donation and related expense on the statement of activities.

k. Advertising

Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the year ended June 30, 2010 was \$20,010.

l. 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

m. Art Collection

The Museum has not capitalized their art collections since they are held for public exhibition rather than financial gain. Proceeds from the sale of any collection items are required to be used to acquire other items for collection.

n. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Museum's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

o. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through March 3, 2011, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

Note 2 - Temporarily Restricted Net Assets

Temporarily restricted net assets and activity consist of:

	Net Assets <u>7/1/09</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Net Assets <u>6/30/10</u>
Program restrictions:				
Capital Campaign	\$102,021	\$120,000	(\$167,518)	\$54,503
Parochial School Partners	0	65,000	(5,000)	60,000
Junior Docents Program	25,000	0	(25,000)	0
Dutch New York	29,500	0	(29,500)	0
Paintbox Leaves	0	15,000	0	15,000
Stevonich Exhibition	4,086	0	(4,086)	0
Plant Fund	113,274	0	0	113,274
Other programs	<u>150,393</u>	<u>0</u>	<u>(4,000)</u>	<u>146,393</u>
Total	<u>\$424,274</u>	<u>\$200,000</u>	<u>(\$235,104)</u>	<u>\$389,170</u>

Note 3 - Permanently Restricted Net Assets

At June 30, 2010, permanently restricted net assets consist of the following:

Lifflander Endowment	\$100,000
Hearst Endowment	200,000
Delany Sisters Endowment	70,000
Capital Campaign Endowment	<u>419,191</u>
Total	<u>\$789,191</u>

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“FSP FAS 117-1”) which, among other things, provides guidance in the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). As of year-end, New York State had not yet adopted UPMIFA, however, has subsequently passed new legislation that will be effective for the next reporting year.

The Museum’s endowment includes four specific endowment funds to be held indefinitely. The income from these investments can be used to support the Museum’s general activities. Additionally, the endowment includes funds designated by the Board of Directors to be retained for future appropriation. The Museum has elected to pool both permanently restricted and board-designated investments.

Interpretation of Relevant Law

The Board of Directors of the Museum has interpreted State Law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Absent any specific donor-stipulations, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets. The Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Museum and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) The investment policies of the Museum

Changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$1,470,843	\$789,191	\$2,260,034
Investment return – investment income	88,206	0	88,206
Realized gain on investments	33,913	0	33,913
Unrealized gain on investments	138,929	0	138,929
Net transfers from fund	<u>(166,825)</u>	<u>0</u>	<u>(166,825)</u>
Endowment net assets, end of year	<u>\$1,565,066</u>	<u>\$789,191</u>	<u>\$2,354,257</u>

Endowment net asset composition by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$32,294	\$789,191	\$821,485
Unrestricted	<u>1,532,772</u>	<u>0</u>	<u>1,532,772</u>
	<u>\$1,565,066</u>	<u>\$789,191</u>	<u>\$2,354,257</u>

Return Objectives and Risk Parameters

The policy is to accumulate interest, dividends and other market value gains for future appropriation.

Note 4 - Investments

ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available observable inputs are those that market participants would use in pricing the securities based on market data obtained from sources independent of the Museum. Unobservable inputs reflect the Museum's assumptions about the inputs that market participants would use in pricing the security developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Museum has the ability to access.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

	<u>Market</u>	<u>Level 1</u>	<u>Level 2</u>
Money funds	\$99,430	\$99,430	\$0
Equities	1,461,942	1,461,942	0
Government securities	520,555	0	520,555
Corporate bonds	134,828	0	134,828
Mutual funds	<u>137,502</u>	<u>137,502</u>	<u>0</u>
Total	<u>\$2,354,257</u>	<u>\$1,698,874</u>	<u>\$655,383</u>

Investment return is summarized as follows:

Unrealized gain on investments	\$138,929
Realized gain on investments	<u>33,913</u>
Total	<u>\$172,842</u>

Note 5 - Pledges Receivable

Pledges receivable are due as follows:

Year ended: June 30, 2011	\$68,383
June 30, 2012	2,000
June 30, 2013	<u>2,000</u>
Total	<u>\$72,383</u>

Note 6 - Property and Equipment

Property and equipment consist of the following:

Leasehold improvements (<i>10 years</i>)	\$1,067,994
Other equipment (<i>3-10 years</i>)	<u>178,724</u>
	1,246,718
Less: accumulated depreciation and amortization	<u>(461,165)</u>
Total	<u>\$785,553</u>

Note 7 - Loans Payable

The Museum has a revolving line of credit with Merrill Lynch, with a variable interest rate which at June 30, 2010 was 2.35%. The line of credit is collateralized by a portion of the Museum's investments. The outstanding balance as of June 30, 2010 was \$179,168.

Note 8 - Employee Benefits

The Museum sponsors a tax deferred annuity plan under IRS section 403(b) of the Internal Revenue Code for all full time employees. Benefit expense for the year ended June 30, 2010 was \$3,476.