



SOUNDWATERS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

DYLEWSKY, GOLDBERG & BRENNER, LLC
CERTIFIED PUBLIC ACCOUNTANTS

SOUNDWATERS, INC.

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Dylewsky, Goldberg & Brenner, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
SoundWaters, Inc.

We have audited the accompanying financial statements of SoundWaters, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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 SoundWaters, Inc. as of June 30, 2017 and 2016, 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.


Dylewsky, Goldberg & Brenner, LLC
Stamford, Connecticut

September 9, 2017

SOUNDWATERS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 131,234	\$ 197,887
Investments	1,529,033	1,567,570
Accounts receivable	259,342	245,094
Pledges receivable, net	72,377	46,034
Prepaid expenses	63,769	78,167
Construction in progress	208,077	16,893
Property and equipment, net	1,421,610	1,397,402
	\$ 3,685,442	\$ 3,549,047
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 144,949	\$ 128,640
Deferred revenue	415,399	290,240
Deferred grant revenue	-	17,860
Deferred compensation	35,728	18,306
Total Liabilities	596,076	455,046
Net Assets		
Unrestricted	1,955,274	1,957,686
Temporarily restricted	400,475	402,698
Permanently restricted	733,617	733,617
Total Net Assets	3,089,366	3,094,001
	\$ 3,685,442	\$ 3,549,047

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>				<u>2016</u>			
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY UNRESTRICTED</u>	<u>TOTAL</u>
Public Support and Revenue								
Direct support	\$ 502,733	\$ 261,125	\$ -	\$ 763,858	\$ 621,395	\$ 163,445	\$ -	\$ 784,840
Special events revenue	272,518	97,450	-	369,968	240,293	60,350	-	300,643
Education programs and other revenue	818,779	-	-	818,779	766,447	-	-	766,447
Government grants - operations	197,376	-	-	197,376	89,000	-	-	89,000
Loss on disposal of fixed assets	(1,488)	-	-	(1,488)	-	-	-	-
Investment return	39,281	-	-	39,281	131,216	-	-	131,216
Total Public Support and Revenue	<u>1,829,199</u>	<u>358,575</u>	<u>-</u>	<u>2,187,774</u>	<u>1,848,351</u>	<u>223,795</u>	<u>-</u>	<u>2,072,146</u>
Net assets released from restrictions	<u>360,798</u>	<u>(360,798)</u>	<u>-</u>	<u>-</u>	<u>351,971</u>	<u>(351,971)</u>	<u>-</u>	<u>-</u>
Total Public Support and Other Revenue	<u>2,189,997</u>	<u>(2,223)</u>	<u>-</u>	<u>2,187,774</u>	<u>2,200,322</u>	<u>(128,176)</u>	<u>-</u>	<u>2,072,146</u>
Functional Expenses								
Program services	1,651,181	-	-	1,651,181	1,524,413	-	-	1,524,413
Management and general	206,044	-	-	206,044	200,520	-	-	200,520
Fund development	193,404	-	-	193,404	201,963	-	-	201,963
Total Functional Expenses	<u>2,050,629</u>	<u>-</u>	<u>-</u>	<u>2,050,629</u>	<u>1,926,896</u>	<u>-</u>	<u>-</u>	<u>1,926,896</u>
Special events expenses	<u>111,224</u>	<u>-</u>	<u>-</u>	<u>111,224</u>	<u>96,371</u>	<u>-</u>	<u>-</u>	<u>96,371</u>
Total Expenses	<u>2,161,853</u>	<u>-</u>	<u>-</u>	<u>2,161,853</u>	<u>2,023,267</u>	<u>-</u>	<u>-</u>	<u>2,023,267</u>
Operating Profit (Deficit)	28,144	(2,223)	-	25,921	177,055	(128,176)	-	48,879
Loss on Disposal of Non-operating Asset	<u>(30,556)</u>	<u>-</u>	<u>-</u>	<u>(30,556)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS BEFORE ACQUISITION INCOME	(2,412)	(2,223)	-	(4,635)	177,055	(128,176)	-	48,879
Contribution - Acquisition of Young Mariners Foundation, Inc.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>269,467</u>	<u>18,000</u>	<u>510,000</u>	<u>797,467</u>
CHANGE IN NET ASSETS	(2,412)	(2,223)	-	(4,635)	446,522	(110,176)	510,000	846,346
Net assets - beginning of year	<u>1,957,686</u>	<u>402,698</u>	<u>733,617</u>	<u>3,094,001</u>	<u>1,511,164</u>	<u>512,874</u>	<u>223,617</u>	<u>2,247,655</u>
Net assets - end of year	<u>\$ 1,955,274</u>	<u>\$ 400,475</u>	<u>\$ 733,617</u>	<u>\$ 3,089,366</u>	<u>\$ 1,957,686</u>	<u>\$ 402,698</u>	<u>\$ 733,617</u>	<u>\$ 3,094,001</u>

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017				2016			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND DEVELOPMENT	TOTAL	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND DEVELOPMENT	TOTAL
Salaries and related expenses	\$ 1,074,444	\$ 138,119	\$ 128,340	\$ 1,340,903	\$ 971,574	\$ 121,558	\$ 126,177	\$ 1,219,309
Supplies	52,438	5,184	4,304	61,926	108,376	8,525	5,619	122,520
Transportation	22,410	2,364	241	25,015	28,044	2,464	321	30,829
Food	25,242	3,533	999	29,774	24,309	4,737	187	29,233
Occupancy	87,663	7,200	3,600	98,463	56,780	7,200	3,600	67,580
Postage and freight	5,194	3,472	1,175	9,841	6,544	297	1,404	8,245
Printing	11,876	816	8,042	20,734	9,119	599	6,761	16,479
Advertising and marketing	23,562	-	2,028	25,590	17,814	348	74	18,236
Professional fees	46,401	24,033	28,194	98,628	28,464	37,881	46,307	112,652
Meetings, dues, and subscriptions	2,184	515	100	2,799	2,263	961	-	3,224
Maintenance	63,552	2,414	2,414	68,380	55,150	-	-	55,150
Telephone	14,202	1,062	1,062	16,326	12,421	1,037	1,037	14,495
Insurance	79,394	3,122	3,122	85,638	74,774	2,742	2,742	80,258
Interest	-	4,212	-	4,212	-	3,074	-	3,074
Merchant fees	20,404	-	2,993	23,397	18,165	-	1,643	19,808
Other expenses	-	3,208	-	3,208	978	3,006	-	3,984
Total Expenses before Depreciation	<u>1,528,966</u>	<u>199,254</u>	<u>186,614</u>	<u>1,914,834</u>	<u>1,414,775</u>	<u>194,429</u>	<u>195,872</u>	<u>1,805,076</u>
Depreciation	<u>122,215</u>	<u>6,790</u>	<u>6,790</u>	<u>135,795</u>	<u>109,638</u>	<u>6,091</u>	<u>6,091</u>	<u>121,820</u>
Total Functional Expenses	<u>\$ 1,651,181</u>	<u>\$ 206,044</u>	<u>\$ 193,404</u>	<u>\$ 2,050,629</u>	<u>\$ 1,524,413</u>	<u>\$ 200,520</u>	<u>\$ 201,963</u>	<u>\$ 1,926,896</u>

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (4,635)	\$ 846,346
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	135,795	121,820
Realized and unrealized gain on investments	(1,310)	(105,933)
Noncash contribution on acquisition of Young Mariners Foundation, Inc.	-	(723,694)
Realized loss on disposal of assets	1,488	-
Changes in Operating Assets and Liabilities:		
Accounts receivable	(14,248)	(128,044)
Pledges receivable	(26,343)	34,216
Prepaid expenses	14,398	(20,168)
Accounts payable	16,309	8,957
Deferred revenue	125,159	77,115
Deferred compensation	17,422	18,306
Refundable advance	(17,860)	538
Total Adjustments	250,810	(716,887)
Net Cash Provided by Operating Activities	246,175	129,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	288,697	370,719
Purchases of investments	(248,850)	(422,083)
Purchases of property and equipment	(352,675)	(40,200)
Net Cash Used by Investing Activities	(312,828)	(91,564)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and notes payable	170,000	195,000
Principal payments on loans and notes payable	(170,000)	(195,000)
Net Cash Used by Financing Activities	-	-
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(66,653)	37,895
Cash and cash equivalents - beginning of year	197,887	159,992
Cash and cash equivalents - end of year	\$ 131,234	\$ 197,887

See accompanying notes to financial statements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 THE ORGANIZATION

SoundWaters, Inc. (“SoundWaters” or the “Organization”) is a not-for-profit organization whose mission is to protect Long Island Sound through education. SoundWaters has sustained relationships built on shared value and trust for over 25 years that includes community, school, business, and political leaders. SoundWaters is committed to ensuring that no child or school will be excluded from our programs due to an inability to pay. Overall, one-third of the students we teach are from low income communities and receive full or partial scholarship assistance.

SoundWaters began in 1990 with a small team, a big dream, and one special ship: the 80-foot, 3-masted Schooner *SoundWaters*. The ship, with its six-person crew, sails with classrooms of students from its home port of Stamford as well as traveling to a dozen harbors throughout the region. Sailing from April through October, SoundWaters introduces 6,000 young people annually to the world of navigation and the science of conservation. Our Coastal Education Center provides an ideal environment for teaching thousands more students each year. With classroom, aquarium, and lab space inside, and Long Island Sound and Holly Pond in its backyard, the Coastal Education Center enables SoundWaters to welcome schools and students twelve months a year. SoundWaters teaches students from approximately 150 schools in communities across the Long Island Sound region. Activities range from citizen-based research, long-term plankton studies, small-boat sailing, advanced high school internships, and special pre-K immersion programs for students from low income families. In 2016, the Young Mariners Foundation (“YMF” or the “Foundation”) of Stamford, Connecticut, a 501(c)(3) not-for-profit STEM-based, after-school enrichment program and summer maritime educational program for underserved and at-risk children in the Stamford and Greenwich agreed to merge with SoundWaters. Young Mariners encourages the growth and development of students in teamwork, goal setting, life and citizenship skills, and self-esteem by combining the sport of sailing with after-school educational programs. SoundWaters has integrated these programs and expanded the summer program into the Young Mariners STEM Academy where over 100 students study, sail, and excel at Stamford Harbor each summer. Through all of these programs, resources, and a great team of people, Soundwaters reaches over 32,000 students each year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Basis

The accompanying financial statements have been prepared on the accrual basis of accounting and are presented in accordance with Financial Accounting Standards Board (“FASB”) guidance. Under that guidance, 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. Further, contributions are recognized as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Contributions: The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 and Change in Net Assets as net assets released from restrictions. Donations that are permanently restricted by the donor, from which the Organization may utilize only the income, are recorded in the permanently restricted net asset class.

Pledges Receivable: Unconditional pledges are recognized as revenue in the period received and recorded as assets or decreases of liabilities or expenses, depending on the form of the benefits received. Conditional pledges are recognized when the conditions on which they depend are substantially met.

Non-cash Contributions: The Organization receives a substantial amount of volunteer services in carrying out its programs and activities. Volunteers perform various administrative and fundraising functions. However, no amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition. Contributed services are not recognized unless the donated services create or enhance non-financial assets or require specialized skills that would typically be purchased if not donated. In-kind contributions are measured at the fair value of the asset transferred to the Organization, or the liability cancelled or settled.

Program and Other Fees: Program and other fees are recognized in the period services are performed in accordance with the terms of the contract or agreement.

Property and Equipment

Property and equipment are carried at cost, if purchased, or at fair values on dates donated, if contributed. The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. Absent explicit donor stipulations about how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Equipment purchased for a value of \$1,000 or greater is capitalized. Repairs and maintenance to existing facilities are charged as expenses as incurred. The Organization uses the direct expensing method for accounting for planned major maintenance activities.

Depreciation is determined by use of the straight-line method over the following useful lives. Presently, three years is used for computer equipment, five to seven years for office and boating equipment, ten years for exhibits, displays, and smaller boats, twenty years for the Schooner *SoundWaters*, and thirty-nine years for buildings and improvements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

SoundWaters, Inc. measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. An entity is required to classify certain assets and liabilities measured at fair value based on the following fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and may be derived from internally developed methodologies based on management's best estimates.

The Organization values all of its investments using Level 1. Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the Statements of Activities and Change in Net Assets.

Investment Securities

Investment securities are recorded at fair value with unrealized gains and losses included in the Statements of Activities and Change in Net Assets. The Organization reports investment income and gains and losses as increases or decreases in unrestricted net assets in the Statements of Activities and Change in Net Assets unless a donor or law temporarily or permanently restricts their use.

Advertising Costs

Advertising costs are expensed as incurred.

Cash and Cash Equivalents

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

Accounts and Pledges Receivable

The Organization carries accounts and pledges receivable at cost and uses the specific write-off method for doubtful accounts. Experience and management's estimation indicate an allowance for such accounts is immaterial. On a periodic basis, the Organization evaluates its accounts receivable and whether the balances are collectible.

Functional Expenses

The costs of providing the program services and other activities are summarized in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferral Grant Revenue

The Organization periodically receives grant proceeds for a grant which has not yet incurred expenses. When the grant proceeds are received but spending has not occurred, a deferral is presented as a liability in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The Organization regularly assesses these estimates and, while actual results may differ from these estimates, management believes that material changes will not occur in the near term.

Uncertainty in Income Taxes

The Organization evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of June 30, 2017, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

Recently Issued Accounting Standards

In May 2014, the FASB issued accounting standards update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. According to the new revenue recognition standards promulgated by the FASB, revenue recognition will follow a five-step process, which may or may not apply to the Organization. The five steps for revenue recognition are as follows: 1) Identify a contract, 2) Identify the performance obligation(s) in the contract, 3) Determine the sales price, 4) Allocate the transaction price to the performance obligations in the contract, and 5) Recognize revenue when, or as, the organization satisfies a performance obligation. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Organization the year ended December 31, 2019. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

In February 2016, the FASB issued a new ASU 2016-02, *Leases (ASC 842)*, which requires an entity to recognize all leases on the balance sheet. The guidance significantly changes lessee accounting for leases, and impacts financial statement presentation and financial metrics, including many that relate directly to debt covenants, key performance indicators, and perhaps compensation arrangements. The ASU will replace most existing lease accounting guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Organization for the year ended December 31, 2019. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In August 2016, the FASB issued a new ASU 2016-14, *Not-for-Profit Entities (ASC 958)*. The accounting standards update addresses the areas which affect both key qualitative and quantitative measurements such as: net asset class presentation, investment return, liquidity and availability of resources, presentation of operating cash flow, and presentation of “underwater” endowments. The new accounting standard becomes effective for fiscal years beginning after December 15, 2017. Not-for-profit entities are required to adopt the standard using a modified retrospective transition approach which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. Early application is permitted. The Organization is evaluating the effect that ASU 2016-14 will have on the financial statements and related disclosures. The Organization has not yet determined the impact of the new standard on its ongoing financial reporting.

NOTE 3 ACQUISITION OF YOUNG MARINERS FOUNDATION, INC.

On January 29, 2016, SoundWaters, Inc. acquired the assets of Young Mariners Foundation, Inc. As a result of the acquisition, SoundWaters recognized a contribution of \$797,467. A summary of the assets acquired, which are based on fair value, is as follows:

Cash and cash equivalents	\$ 73,772
Investments	616,286
Property and equipment (including construction in progress)	120,856
Receivables and other assets	9,826
Other liabilities acquired, net of assets	<u>(23,273)</u>
 Total Assets Acquired	 \$ <u>797,467</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 INVESTMENTS

Investments are maintained at major financial institutions and carried at fair value. They consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Equities	\$ 856,313	\$ 946,083
Corporate bonds	594,439	515,277
Government and agency bonds	53,281	100,919
Certificates of deposit	25,000	-
Mutual funds	<u>-</u>	<u>5,291</u>
Total Investments	<u>\$ 1,529,033</u>	<u>\$ 1,567,570</u>

Investment return is summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 50,607	\$ 33,547
Net realized and unrealized gains on investments	1,310	105,933
Investment expenses	<u>(12,636)</u>	<u>(8,264)</u>
Total Investment Return	<u>\$ 39,281</u>	<u>\$ 131,216</u>

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Accounts receivable	\$ 250,167	\$ 227,639
Other receivables	<u>9,175</u>	<u>17,455</u>
Total Accounts Receivable	<u>\$ 259,342</u>	<u>\$ 245,094</u>

NOTE 6 PLEDGES RECEIVABLE

Unconditional pledges receivable at June 30, 2017 and 2016 were \$72,377 and \$46,034, respectively. All pledges were due within one year and were all deemed collectible at June 30, 2017 and 2016; accordingly, there is no allowance for doubtful accounts.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 1,957,019	\$ 1,860,083
Schooner <i>SoundWaters</i>	694,017	694,017
Small boats	186,245	139,769
Office equipment	121,126	121,126
Exhibits and displays	<u>416,621</u>	<u>461,923</u>
	3,375,028	3,276,918
Less: accumulated depreciation	<u>(1,953,418)</u>	<u>(1,879,516)</u>
 Total Property and Equipment, net	 <u>\$ 1,421,610</u>	 <u>\$ 1,397,402</u>

In August 2014, the YMF received a Hurricane Sandy relief block grant through the State of Connecticut to survey the waterfront, dredge, and restore the waterfront property located at Boccuzzi Park, formerly known as Southfield Park. The preliminary study and initial dredging costs of \$16,893 were recorded as construction in progress at June 30, 2016. The total cost of the project was \$199,753 and will be in service in fiscal year 2018. Additionally, \$8,324 has been expended during the year ended June 30, 2017 related to the preliminary planning costs for a potential new building at this location.

NOTE 8 LOANS AND NOTES PAYABLE

SoundWaters maintains a \$375,000 line of credit with a bank at 1% over the bank's prime lending rate (5.25% and 3.5%, respectively, at June 30, 2017 and 2016). The line of credit is renewed annually. Interest is payable monthly. SoundWaters maintains an additional line of credit with another bank for \$75,000. The Schooner *SoundWaters* is collateral for this line of credit which is renewed annually. There were no amounts outstanding on the lines at June 30, 2017.

Interest incurred and paid to all sources during the years ended June 30, 2017 and 2016 was \$4,212 and \$3,074, respectively.

NOTE 9 DEFERRED REVENUE

SoundWaters receives summer camp and various other program fees in advance of operating the programs.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 10 NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
Scholarship	\$ 169,470	\$ 202,247
Education	216,005	177,451
Other	<u>15,000</u>	<u>23,000</u>
Total Temporarily Restricted Net Assets	\$ <u>400,475</u>	\$ <u>402,698</u>

Temporarily restricted net assets of \$150,347 and \$83,060 were used for scholarships and \$210,451 and \$268,911 for education programs during the years ended June 30, 2017 and 2016, respectively.

Permanently restricted net assets, from which the income is expendable for general purposes, were as follows at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Total Permanently Restricted Net Assets	\$ <u>733,617</u>	\$ <u>733,617</u>

The Organization's endowment consists of \$733,617 of permanently restricted net assets which includes an acquired fund from YMF established for a variety of purposes and includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Endowment Law

The Organization's board of directors has interpreted the State of Connecticut's Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") 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 Organization currently classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

Investments are managed in accordance with the Organization's board-approved investment and spending policies. The primary investment objective is to preserve and enhance the assets by earning a competitive return from investment income without exposing the assets to undue long-term risk.

The endowment includes only permanently restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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NOTE 10 NET ASSETS (continued)

Changes in endowment net assets for the years ended June 30, 2017 and 2016:

	Board-designated Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year at July 1, 2015	\$ <u> -</u>	\$ <u>223,617</u>	\$ <u>223,617</u>
Investment return:			
Investment income	22,069	-	22,069
Net appreciation (realized and unrealized)	35,673	-	35,673
Investment fees	<u>(2,950)</u>	<u> -</u>	<u>(2,950)</u>
Total Investment Return	<u>54,792</u>	<u> -</u>	<u>54,792</u>
Appropriation of endowment assets for expenditure	(25,395)	-	(25,395)
Endowment assets acquired from Young Mariners Foundation	<u>106,286</u>	<u>510,000</u>	<u>616,286</u>
Endowment net assets, year ended June 30, 2016	<u>135,683</u>	<u>733,617</u>	<u>869,300</u>
Investment return:			
Investment income	30,028	-	30,028
Net appreciation (realized and unrealized)	5,832	-	5,832
Investment fees	<u>(6,573)</u>	<u> -</u>	<u>(6,573)</u>
Total Investment Return	29,287	-	29,287
Appropriation of endowment assets for expenditure	<u>(3,306)</u>	<u> -</u>	<u>(3,306)</u>
Endowment net assets, year ended June 30, 2017	<u>\$ 161,664</u>	<u>\$ 733,617</u>	<u>\$ 895,281</u>

Earnings on permanently restricted endowments are unrestricted and are included in the investment returns of board-designated unrestricted endowment.

NOTE 11 IN-KIND CONTRIBUTIONS

During the year ended June 30, 2017, the Organization received donations of various small boats with a total value of \$18,050. The value has been included in the financial statements as a general contribution with the related depreciable assets recorded at the same value in Property and Equipment. For the

SOUNDWATERS, INC.
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NOTE 11 IN-KIND CONTRIBUTIONS (continued)

years ended June 30, 2017 and 2016, donated dock space valued at \$3,000 in each year and donated utilities valued at \$36,000 in each year, have also been included in the financial statements as a general contribution, along with an identical amount allocated to the related expense account.

NOTE 12 LEASES

SoundWaters has entered into an agreement with the City of Stamford (the "City") to lease a building that is listed on the National Historic Register. The lease began in October 1999. The Organization uses the building as the SoundWaters Coastal Education Center and its administrative offices. SoundWaters renovated the building and will pay the City an annual minimum rent of \$1 for thirty years and a negotiated minimum rent for an additional twenty years thereafter. Since the cost of the original renovations exceeded the fair rental value of the property over the term of the lease agreement, the Organization has not recorded any contribution income in connection with the use of the facility.

The Organization also leases certain office equipment under operating lease agreements. The leases expire between January 2016 and May 2020. Lease expense under the operating lease for the years ended June 30, 2017 and 2016 was \$6,386 and \$6,208, respectively.

The future minimum lease payments under the equipment lease are as follows:

2018	\$ 4,980
2019	4,980
2020	4,565

Through the acquisition of YMF, the Organization acquired a lease dated December 2005. YMF entered into the lease with the City of Stamford for the use of waterfront property located at Southfield Park. The lease provides that YMF construct a permanent facility and marina that will serve as the YMF's program primary base for sailing instruction within Stamford. Rent due under the lease is \$1 a year to be paid by YMF to the City of Stamford throughout the lease term. Prior to the summer of 2006, YMF had constructed a marina and temporary classroom facility at the leased premises which had been used to run its summer, fall, weekend, and community programs. Over \$200,000 of improvements were made to the facilities, marina, and harbor after the 2016 merger with a grant from the State of Connecticut. Planning and design for a permanent facility at the site are underway.

The management of SoundWaters has estimated the rental value of the property by reference to the values of other similar properties in the area. The estimated rental value of the property was \$16,800 in each of the years ended June 30, 2017 and 2016, respectively. These amounts are reflected as both in-kind contributions and facilities expenses in the accompanying Statements of Activities and Change in Net Assets.

SOUNDWATERS, INC.
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NOTE 12 LEASES (continued)

Management has estimated the value of the conditional pledge for the lease of land on which the permanent facility will be constructed to be approximately \$1,125,000. In accordance with generally accepted accounting principles in the United States, this amount will be recorded as a pledge receivable once all contingencies in the lease agreement have been satisfied.

NOTE 13 SPECIAL EVENTS

The Organization runs various special events during the year; the major fundraising event is the Tall Ships Ball.

NOTE 14 CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash and cash equivalent balances at various financial institutions. The balances in these accounts may at times exceed insured limits. At June 30, 2017, the Organization's bank cash balances did not exceed Federal Deposit Insurance Corporation ("FDIC") limits.

NOTE 15 INCOME TAXES

The Organization is exempt from federal income taxes under Internal Revenue Code section 501(c)(3). Contributions made to the Organization are qualified for the maximum tax deductions allowable under the United States Internal Revenue Code.

NOTE 16 TAX DEFERRED ANNUITY PLAN

The Organization maintains a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers substantially all employees. Employees may elect to have withholdings from wages up to the maximum allowable under the Internal Revenue Code. The Organization's contribution to the plan was \$20,350 and \$19,384 in 2017 and 2016, respectively.

NOTE 17 DEFERRED COMPENSATION PLAN

During the year ended June 30, 2015, the Organization established two deferred compensation plans for the benefit of the President of the Organization. The first plan allows for an elective deferral by the employee. SoundWaters can make a discretionary payment to this plan but has not contributed to the plan through June 30, 2017. Any amounts contributed under this plan will vest immediately when paid.

SOUNDWATERS, INC.
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NOTE 17 DEFERRED COMPENSATION PLAN (continued)

The second plan is funded by SoundWaters and will vest after five years from the inception of the plan in accordance with the plan document. At June 30, 2017, \$27,000 was accrued toward the plan. The contribution and related investment return is maintained in a separate account, as required by the plan.

NOTE 18 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 9, 2017, the date that the financial statements were available to be issued.