



SOUNDWATERS, INC.

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

JUNE 30, 2018 AND 2017

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

SOUNDWATERS, INC.

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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 statement of financial position as of June 30, 2018, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The financial statements as of June 30, 2017 were audited by Dylewsky, Goldberg and Brenner, LLC, who merged with Marks Paneth LLP as of November 1, 2017 and whose report dated September 9, 2017 expressed an unmodified opinion on those statements.

Marks Paneth LLP

Marks Paneth LLP
Purchase, New York

October 17, 2018

SOUNDWATERS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 299,151	\$ 131,234
Investments	1,606,729	1,529,033
Accounts receivable	248,490	259,342
Pledges receivable, current portion	78,875	72,377
Prepaid expenses	63,388	63,769
Construction in progress	55,440	208,077
Property and equipment, net	1,545,186	1,421,610
Total Current Assets	3,897,259	3,685,442
 Pledges Receivable , net of current portion	 30,757	 -
 TOTAL ASSETS	 \$ 3,928,016	 \$ 3,685,442
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 179,450	\$ 144,949
Deferred revenue	490,083	415,399
Deferred compensation	56,267	35,728
Total Liabilities	725,800	596,076
 Net Assets		
Unrestricted	1,866,077	1,955,274
Temporarily restricted	602,522	400,475
Permanently restricted	733,617	733,617
Total Net Assets	3,202,216	3,089,366
 TOTAL LIABILITIES AND NET ASSETS	 \$ 3,928,016	 \$ 3,685,442

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY UNRESTRICTED	TOTAL
Public Support and Revenue								
Direct support	\$ 486,090	\$ 406,484	\$ -	\$ 892,574	\$ 502,733	\$ 261,125	\$ -	\$ 763,858
Special events revenue	354,109	85,645	-	439,754	272,518	97,450	-	369,968
Special events expenses	(134,159)	-	-	(134,159)	(111,224)	-	-	(111,224)
Education programs and other revenue	823,835	-	-	823,835	818,779	-	-	818,779
Government grants - operations	48,449	-	-	48,449	197,376	-	-	197,376
Bad debt	-	-	-	-	-	-	-	-
Loss on disposal of fixed assets	-	-	-	-	(1,488)	-	-	(1,488)
Other revenue	4,085	-	-	4,085	-	-	-	-
Investment return	80,961	-	-	80,961	39,281	-	-	39,281
Total Public Support and Revenue	1,663,370	492,129	-	2,155,499	1,717,975	358,575	-	2,076,550
Net assets released from restrictions	290,082	(290,082)	-	-	360,798	(360,798)	-	-
Total Public Support and Other Revenue	1,953,452	202,047	-	2,155,499	2,078,773	(2,223)	-	2,076,550
Functional Expenses								
Program services	1,684,167	-	-	1,684,167	1,651,181	-	-	1,651,181
Management and general	143,124	-	-	143,124	206,044	-	-	206,044
Fund development	215,358	-	-	215,358	193,404	-	-	193,404
Total Functional Expenses	2,042,649	-	-	2,042,649	2,050,629	-	-	2,050,629
Loss on Disposal of Non-operating Asset	-	-	-	-	(30,556)	-	-	(30,556)
CHANGE IN NET ASSETS	(89,197)	202,047	-	112,850	(2,412)	(2,223)	-	(4,635)
Net assets - beginning of year	1,955,274	400,475	733,617	3,089,366	1,957,686	402,698	733,617	3,094,001
Net assets - end of year	\$ 1,866,077	\$ 602,522	\$ 733,617	\$ 3,202,216	\$ 1,955,274	\$ 400,475	\$ 733,617	\$ 3,089,366

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017			
	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND DEVELOPMENT</u>	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND DEVELOPMENT</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 1,110,358	\$ 66,904	\$ 141,718	\$ 1,318,980	\$ 1,074,444	\$ 138,119	\$ 128,340	\$ 1,340,903
Supplies	55,307	10,238	4,840	70,385	52,438	5,184	4,304	61,926
Transportation	21,724	2,123	227	24,074	22,410	2,364	241	25,015
Food	20,061	2,413	133	22,607	25,242	3,533	999	29,774
Occupancy	85,028	7,295	3,600	95,923	87,663	7,200	3,600	98,463
Postage and freight	3,339	2,586	942	6,867	5,194	3,472	1,175	9,841
Printing	15,320	574	2,486	18,380	11,876	816	8,042	20,734
Advertising and marketing	15,515	273	497	16,285	23,562	-	2,028	25,590
Professional fees	37,671	28,786	42,022	108,479	46,401	24,033	28,194	98,628
Meetings, dues, and subscriptions	5,848	718	338	6,904	2,184	515	100	2,799
Maintenance	87,869	5,305	5,305	98,479	63,552	2,414	2,414	68,380
Telephone	11,086	1,067	1,067	13,220	14,202	1,062	1,062	16,326
Insurance	80,239	2,872	2,872	85,983	79,394	3,122	3,122	85,638
Interest	-	1,884	-	1,884	-	4,212	-	4,212
Merchant fees	16,933	-	2,763	19,696	20,404	-	2,993	23,397
Other expenses	-	3,538	-	3,538	-	3,208	-	3,208
Total Expenses before Depreciation	<u>1,566,298</u>	<u>136,576</u>	<u>208,810</u>	<u>1,911,684</u>	<u>1,528,966</u>	<u>199,254</u>	<u>186,614</u>	<u>1,914,834</u>
Depreciation	<u>117,869</u>	<u>6,548</u>	<u>6,548</u>	<u>130,965</u>	<u>122,215</u>	<u>6,790</u>	<u>6,790</u>	<u>135,795</u>
Total Functional Expenses	<u>\$ 1,684,167</u>	<u>\$ 143,124</u>	<u>\$ 215,358</u>	<u>\$ 2,042,649</u>	<u>\$ 1,651,181</u>	<u>\$ 206,044</u>	<u>\$ 193,404</u>	<u>\$ 2,050,629</u>

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 112,850	\$ (4,635)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	130,965	135,795
Realized and unrealized gain on investments	(42,446)	(1,310)
Realized loss on disposal of assets	-	1,488
Changes in Operating Assets and Liabilities:		
Accounts receivable	10,852	(14,248)
Pledges receivable	(37,255)	(26,343)
Prepaid expenses	381	14,398
Accounts payable	34,501	16,309
Deferred revenue	74,684	125,159
Deferred compensation	20,539	17,422
Refundable advance	-	(17,860)
Total Adjustments	192,221	250,810
Net Cash Provided by Operating Activities	305,071	246,175
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	2,000,741	288,697
Purchases of investments	(2,035,991)	(248,850)
Purchases of property and equipment	(101,904)	(352,675)
Net Cash Used by Investing Activities	(137,154)	(312,828)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and notes payable	230,000	170,000
Principal payments on loans and notes payable	(230,000)	(170,000)
Net Cash Used by Financing Activities	-	-
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	167,917	(66,653)
Cash and cash equivalents - beginning of year	131,234	197,887
Cash and cash equivalents - end of year	\$ 299,151	\$ 131,234

See accompanying notes to financial statements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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. We enrich our community and protect our environment through teaching, training, sailing and study on Long Island Sound. Our goal is a sustainable environment where people have a passion for Long Island Sound, students succeed, and our community thrives.

SoundWaters has sustained relationships built on shared value and trust for over 25 years that include 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, nearly one half 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*. In our first year we reached a few hundred students aboard ship. Now, SoundWaters reaches and teaches over 32,000 young people from over 150 schools in programs that range from citizen-based research, long-term plankton studies, small-boat sailing, mentoring, advanced high school internships, and pre-K immersion science programs.

Our Coastal Education Center provides an ideal environment for teaching thousands of 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. Our new site at Stamford Harbor – where we will build the Harbor Academy – offers ideal space for sailing, water quality research, aquaculture and more. The schooner, with its six-person crew, sails from April through October with classrooms of students from its home port of Stamford as well as traveling to a dozen harbors throughout the region.

In 2016, the Young Mariners Foundation (YMF) of Stamford, Connecticut, a 501(c)(3) not-for-profit maritime education program was acquired by SoundWaters. SoundWaters has embraced the program and integrated the activities, with its emphasis on mentoring, academic support and small boat sailing into the Young Mariners STEM Academy where over 100 students study, sail, and excel at Stamford Harbor each summer. Additionally, several Board members from YMF joined the SoundWaters Board, bringing skills and perspectives that have broadened our scope.

In addition to the wide range of education programs, SoundWaters also offers programs for the broader community - all with the goal of providing a way for people to develop a meaningful connection with the local environment. These programs range from public sails to paddlesports to coastal clean-ups and more. Through all of these programs, resources, and a great team of people, SoundWaters makes Long Island Sound accessible to all – creating a legacy of joyful learning and lifelong stewardship.

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, 2018 AND 2017

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 leasehold improvements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

The Organization 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.

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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, 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.

NOTE 3 INVESTMENTS

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

	<u>2018</u>	<u>2017</u>
Equities	\$ 399,804	\$ 856,313
Corporate bonds	104,596	594,439
Government and agency bonds	217,114	53,281
Certificates of deposit	-	25,000
Mutual funds	<u>885,215</u>	<u>-</u>
Total Investments	<u>\$ 1,606,729</u>	<u>\$ 1,529,033</u>

Investment return is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 55,744	\$ 50,607
Net realized and unrealized gains on investments	42,446	1,310
Investment expenses	<u>(17,229)</u>	<u>(12,636)</u>
Total Investment Return	<u>\$ 80,961</u>	<u>\$ 39,281</u>

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 230,822	\$ 250,167
Other receivables	<u>17,668</u>	<u>9,175</u>
Total Accounts Receivable	<u>\$ 248,490</u>	<u>\$ 259,342</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 PLEDGES RECEIVABLE

Pledges receivable at June 30, 2018 and 2017, respectively, represent unconditional promises to give payable over periods of up to five years and were as follows:

	<u>2018</u>	<u>2017</u>
Receivable in one year or less	\$ 78,875	\$ 72,377
Receivable in two to five years	<u>32,000</u>	<u>-</u>
	110,875	72,377
Discounts to present value at 2%	<u>(1,243)</u>	<u>-</u>
Total Pledges Receivable, net	\$ <u>109,632</u>	\$ <u>72,377</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 2,171,597	\$ 1,957,019
Schooner <i>SoundWaters</i>	694,017	694,017
Small boats	207,509	186,245
Office equipment	128,044	121,126
Exhibits and displays	<u>423,564</u>	<u>416,621</u>
	3,624,731	3,375,028
Less: accumulated depreciation	<u>(2,079,545)</u>	<u>(1,953,418)</u>
Total Property and Equipment, net	\$ <u>1,545,186</u>	\$ <u>1,421,610</u>

NOTE 7 LOANS AND NOTES PAYABLE

SoundWaters maintains a \$375,000 line of credit with a bank at 1% over the bank's prime lending rate (6.00% and 5.25%, respectively, at June 30, 2018 and 2017). 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, 2018 or 2017.

Interest incurred and paid to all sources during the years ended June 30, 2018 and 2017 was \$1,884 and \$4,212, respectively.

NOTE 8 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, 2018 AND 2017

NOTE 9 NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Scholarship	\$ 240,389	\$ 169,470
Education	354,867	216,005
Other	<u>7,266</u>	<u>15,000</u>
 Total Temporarily Restricted Net Assets	 \$ <u>602,522</u>	 \$ <u>400,475</u>

Temporarily restricted net assets of \$51,710 and \$150,347 were used for scholarships and \$238,372 and \$210,451 for education programs during the years ended June 30, 2018 and 2017, respectively.

Permanently restricted net assets, from which the income is expendable for general purposes, were as follows at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</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. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors 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.

In accordance with the CUPMIFA, the Organization 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 Organization and the donor-restricted 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) Other resources of the Organization, and
- 7) The investment policies of the Organization.

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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 9 NET ASSETS (continued)

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 733,617	\$ 733,617
Board-designated endowment funds	<u>835,741</u>	<u>-</u>	<u>835,741</u>
Total Funds	<u>\$ 835,741</u>	<u>\$ 733,617</u>	<u>\$ 1,569,358</u>

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 733,617	\$ 733,617
Board-designated endowment funds	<u>161,664</u>	<u>-</u>	<u>161,664</u>
Total Funds	<u>\$ 161,664</u>	<u>\$ 733,617</u>	<u>\$ 895,281</u>

Changes in endowment net assets for the years ended June 30, 2018 and 2017:

	<u>Board-designated Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year at July 1, 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	<u>29,287</u>	<u>-</u>	<u>29,287</u>
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>
Investment return:			
Investment income	54,366	-	54,366
Net appreciation (realized and unrealized)	42,325	-	42,325
Investment fees	<u>(17,622)</u>	<u>-</u>	<u>(17,622)</u>
Total Investment Return	79,069	-	79,069
Transfers to create board-designated endowment funds	<u>595,008</u>	<u>-</u>	<u>595,008</u>
Endowment net assets, year ended June 30, 2018	\$ <u>835,741</u>	\$ <u>733,617</u>	\$ <u>1,569,358</u>

SOUNDWATERS, INC.
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NOTE 10 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 years ended June 30, 2018 and 2017, 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 11 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, 2018 and 2017 was \$6,386 and \$6,208, respectively.

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

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 acquisition 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, 2018 and 2017, respectively. These amounts are reflected as both general contributions and facilities expenses in the accompanying Statements of Activities and Change in Net Assets.

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.

SOUNDWATERS, INC.
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NOTE 12 SPECIAL EVENTS

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

NOTE 13 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, 2018, the Organization's bank cash balances did not exceed Federal Deposit Insurance Corporation ("FDIC") limits.

NOTE 14 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 15 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 \$19,641 and \$20,350 in 2018 and 2017, respectively.

NOTE 16 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, 2018. Any amounts contributed under this plan will vest immediately when paid.

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, 2018, \$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 17 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 17, 2018, the date that the financial statements were available to be issued.