



SOUNDWATERS, INC.

**Financial Statements
(Together with Independent Auditors' Report)**

For the Years Ended June 30, 2019 and 2018

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

SOUNDWATERS, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
SoundWaters, Inc.

We have audited the accompanying financial statements of SoundWaters, Inc., (the "Organization") which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, the Organization adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities". Our opinion is not modified with respect to this matter.

Markus Peneth CPA

Purchase, New York
November 19, 2019

SOUNDWATERS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 537,115	\$ 299,151
Investments	2,703,739	1,606,729
Accounts receivable	181,170	248,490
Pledges receivable, current portion	176,293	78,875
Prepaid expenses	82,799	63,388
Total Current Assets	3,681,116	2,296,633
Property and equipment, net	1,441,574	1,545,186
Construction in progress	83,705	55,440
Pledges Receivable, net of current portion	218,427	30,757
 TOTAL ASSETS	 \$ 5,424,822	 \$ 3,928,016
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 208,947	\$ 179,450
Deferred revenue	455,096	490,083
Total Current Liabilities	664,043	669,533
Deferred compensation	75,752	56,267
Net Assets		
Without donor restrictions	1,814,958	1,823,970
With donor restrictions	2,870,069	1,378,246
Total Net Assets	4,685,027	3,202,216
 TOTAL LIABILITIES AND NET ASSETS	 \$ 5,424,822	 \$ 3,928,016

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>			<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTAL</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>TOTAL</u>
Public Support and Revenue						
Direct support	\$ 495,646	\$ 1,770,290	\$ 2,265,936	\$ 486,090	\$ 406,484	\$ 892,574
Special events revenue	319,634	108,100	427,734	354,109	85,645	439,754
Direct benefits to donors	(101,831)	-	(101,831)	(92,909)	-	(92,909)
Education programs and other revenue	860,473	-	860,473	823,835	-	823,835
Government grants - operations	83,539	-	83,539	48,449	-	48,449
Other revenue	19,017	-	19,017	4,085	-	4,085
Investment return	<u>48,553</u>	<u>57,484</u>	<u>106,037</u>	<u>38,854</u>	<u>42,107</u>	<u>80,961</u>
Total Public Support and Revenue	1,725,031	1,935,874	3,660,905	1,662,513	534,236	2,196,749
Net assets released from restrictions	<u>444,051</u>	<u>(444,051)</u>	<u>-</u>	<u>290,082</u>	<u>(290,082)</u>	<u>-</u>
Total Public Support and Other Revenue	<u>2,169,082</u>	<u>1,491,823</u>	<u>3,660,905</u>	<u>1,952,595</u>	<u>244,154</u>	<u>2,196,749</u>
Functional Expenses						
Program services	1,707,297	-	1,707,297	1,684,167	-	1,684,167
Management and general	194,635	-	194,635	143,124	-	143,124
Fund development	<u>276,162</u>	<u>-</u>	<u>276,162</u>	<u>256,608</u>	<u>-</u>	<u>256,608</u>
Total Functional Expenses	<u>2,178,094</u>	<u>-</u>	<u>2,178,094</u>	<u>2,083,899</u>	<u>-</u>	<u>2,083,899</u>
<u>CHANGE IN NET ASSETS</u>	(9,012)	1,491,823	1,482,811	(131,304)	244,154	112,850
Net assets - beginning of year	<u>1,823,970</u>	<u>1,378,246</u>	<u>3,202,216</u>	<u>1,955,274</u>	<u>1,134,092</u>	<u>3,089,366</u>
Net assets - end of year	<u>\$ 1,814,958</u>	<u>\$ 2,870,069</u>	<u>\$ 4,685,027</u>	<u>\$ 1,823,970</u>	<u>\$ 1,378,246</u>	<u>\$ 3,202,216</u>

SOUNDWATERS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019				2018			
	<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	\$ 1,116,196	\$ 117,681	\$ 134,322	\$ 1,368,199	\$ 1,110,358	\$ 66,904	\$ 141,718	\$ 1,318,980
Supplies	64,879	6,976	26,589	98,444	55,307	10,238	22,577	88,122
Transportation	22,953	2,250	306	25,509	21,724	2,123	227	24,074
Food	22,991	4,264	57,265	84,520	20,061	2,413	54,347	76,821
Occupancy	96,944	-	29,697	126,641	85,028	7,295	29,915	122,238
Postage and freight	2,558	3,734	1,594	7,886	3,339	2,586	1,690	7,615
Printing	8,973	513	10,690	20,176	15,320	574	6,833	22,727
Advertising and marketing	11,167	142	8,523	19,832	15,515	273	7,801	23,589
Professional fees	52,532	34,860	83,305	170,697	37,671	28,786	58,478	124,935
Meetings, dues and subscriptions	6,195	642	608	7,445	5,848	718	338	6,904
Maintenance	79,085	3,637	3,637	86,359	87,869	5,305	5,305	98,479
Telephone	11,199	1,114	1,114	13,427	11,086	1,067	1,067	13,220
Insurance	76,851	2,786	2,786	82,423	80,239	2,872	2,872	85,983
Interest	-	3,827	-	3,827	-	1,884	-	1,884
Merchant fees	13,274	-	10,851	24,125	16,933	-	9,801	26,734
Scholarships and awards	-	2,000	-	2,000	-	-	-	-
Other expenses	800	3,503	-	4,303	-	3,538	-	3,538
Depreciation	120,700	6,706	6,706	134,112	117,869	6,548	6,548	130,965
Total Expenses	<u>1,707,297</u>	<u>194,635</u>	<u>377,993</u>	<u>2,279,925</u>	<u>1,684,167</u>	<u>143,124</u>	<u>349,517</u>	<u>2,176,808</u>
Less: direct benefits to donors recorded on statement of activities	<u>-</u>	<u>-</u>	<u>(101,831)</u>	<u>(101,831)</u>	<u>-</u>	<u>-</u>	<u>(92,909)</u>	<u>(92,909)</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,707,297</u>	<u>\$ 194,635</u>	<u>\$ 276,162</u>	<u>\$ 2,178,094</u>	<u>\$ 1,684,167</u>	<u>\$ 143,124</u>	<u>\$ 256,608</u>	<u>\$ 2,083,899</u>

See accompanying notes to financial statements.

SOUNDWATERS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ 1,482,811</u>	<u>\$ 112,850</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	134,112	130,965
Realized and unrealized gain on investments	(63,170)	(42,446)
Changes in Operating Assets and Liabilities:		
Accounts receivable	67,320	10,852
Pledges receivable	(285,088)	(37,255)
Prepaid expenses	(19,411)	381
Accounts payable	29,497	34,501
Deferred revenue	(34,987)	74,684
Deferred compensation	<u>19,485</u>	<u>20,539</u>
Total Adjustments	<u>(152,242)</u>	<u>192,221</u>
Net Cash Provided by Operating Activities	<u>1,330,569</u>	<u>305,071</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	-	2,000,741
Purchases of investments	(1,033,840)	(2,035,991)
Purchases of property and equipment	<u>(58,765)</u>	<u>(101,904)</u>
Net Cash Used by Investing Activities	<u>(1,092,605)</u>	<u>(137,154)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and notes payable	155,000	230,000
Principal payments on loans and notes payable	<u>(155,000)</u>	<u>(230,000)</u>
Net Cash Used by Financing Activities	<u>-</u>	<u>-</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	237,964	167,917
Cash and cash equivalents - beginning of year	<u>299,151</u>	<u>131,234</u>
Cash and cash equivalents - end of year	<u><u>\$ 537,115</u></u>	<u><u>\$ 299,151</u></u>

See accompanying notes to financial statements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 30 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 12 months a year. Our new site at Stamford Harbor – where we will build the SoundWaters Harbor Center – 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 and is no longer in operations. SoundWaters has embraced the program and integrated the activities into the Young Mariners Academy. 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 Organization’s financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) guidance on reporting information regarding its financial position and activities for not-for-profit organizations.

Net Assets

The Organization’s net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

- Without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

- With donor restrictions – Net assets subject to donor-imposed stipulations, including stipulations that will be met either by actions of the Organization or the passage of time, stipulations that they be maintained permanently by the Organization, and unappropriated endowment earnings.

Revenue Recognition

Contributions: The Organization reports gifts of cash and other assets as support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and change in net assets as net assets released from restrictions. If a donor restriction is fulfilled in the same time period in which the contribution is received, the Organization recognizes the support as without donor restrictions. Donations that are intended to be held in perpetuity by the donor, from which the Organization may utilize only the income, are recorded in net asset with donor restriction 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 support without donor restrictions 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 support with donor restrictions. 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, 10 years for exhibits, displays, and smaller boats, 20 years for the Schooner *SoundWaters*, and 39 years for buildings and leasehold improvements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 net assets without donor restrictions in the statements of activities and change in net assets unless a donor or law 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 program and supporting services activities have been summarized on a functional basis in the statements of activities and change in net assets. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses (Continued)

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that are consistently applied. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, employee benefits and payroll taxes, which are based on time and effort within each functional area. Postage and shipping, printing and publications, and bank charges are based on expenses tracked by account across functions. Supplies, office and computer expenses and telephone are based on staff usage.

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, 2019, 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.

Reclassifications

Certain reclassifications were made to the presentation of the 2018 financial statements to conform to the 2019 financial statement presentation.

Recent Accounting Pronouncements

FASB Accounting Standards Update (“ASU”) 2016-14, “Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities” was adopted for the year ended June 30, 2019. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. ASU 2016-14 provides for a number of changes including the presentation of two classes of net assets and enhanced disclosure of liquid resources and expense allocation. Net assets as of June 30, 2018 were reclassified to conform to the new presentation. The unrestricted net asset class has been renamed net assets without donor restrictions.

The FASB has issued standards that the Organization must consider for adoption over the next two years. Those standards include the following: 1) “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”, effective for the year ended June 30, 2020; which aims to assist entities in evaluating whether contributions should be accounted for as contributions or exchange transactions and determination as to whether a contribution is conditional, 2) “Leases,” effective for the year ended June 30, 2022, which aims to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements, and 3) “Revenues from Contract with Customers,” 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. According to the new revenue recognition standard, revenue recognition will follow a five-step process, which may or may not apply to the Organization. The Organization is currently evaluating the impact of the adoption of these standards on its financial statements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES

The Organization regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities as well as services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of June 30, 2019, the Organization's financial assets were as follows:

Cash and cash equivalents	\$ 537,115
Investments	2,703,739
Accounts receivable	181,170
Pledges receivable, net	<u>394,720</u>
Subtotal financial assets at year end	3,816,744
Less amounts with limits on usage:	
Spendable net assets with donor restrictions	(1,459,280)
Investments with restricted use	(126,826)
Endowment assets – board designated	(838,585)
Endowment assets with donor restrictions	<u>(833,207)</u>
Total financial assets available for general use within one year	<u>\$ 558,846</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments, and money market funds. Occasionally, the Board designates a portion of any operating surplus to operating reserve. This reserve, established by the board of trustees, may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

NOTE 4 – INVESTMENTS

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

	<u>2019</u>	<u>2018</u>
Certificate of Deposit	\$ 1,004,173	\$ -
Equities	347,177	399,804
Corporate bonds	102,911	104,596
Government and agency bonds	235,944	217,114
Mutual funds - equities	792,486	664,886
Mutual funds – fixed income	<u>221,048</u>	<u>220,329</u>
Total Investments	<u>\$ 2,703,739</u>	<u>\$ 1,606,729</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 – INVESTMENTS (Continued)

Investment return is summarized as follows:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 60,716	\$ 55,744
Net realized and unrealized gains on investments	63,170	42,446
Investment expenses	<u>(17,849)</u>	<u>(17,229)</u>
 Total Investment Return	 <u>\$ 106,037</u>	 <u>\$ 80,961</u>

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 170,812	\$ 230,822
Other receivables	<u>10,358</u>	<u>17,668</u>
 Total Accounts Receivable	 <u>\$ 181,170</u>	 <u>\$ 248,490</u>

NOTE 6 – PLEDGES RECEIVABLE

Pledges receivable at June 30, 2019 and 2018, respectively, represent unconditional promises to give payable over periods of up to five years and were as follows:

	<u>2019</u>	<u>2018</u>
Receivable in one year or less	\$ 176,293	\$ 78,875
Receivable in two to five years	<u>228,488</u>	<u>32,000</u>
	404,781	110,875
Discounts to present value at 2%	<u>(10,061)</u>	<u>(1,243)</u>
 Total Pledges Receivable, net	 <u>\$ 394,720</u>	 <u>\$ 109,632</u>

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment, net consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 2,173,597	\$ 2,171,597
Schooner <i>SoundWaters</i>	694,017	694,017
Small boats	236,009	207,509
Office equipment	128,044	128,044
Exhibits and displays	<u>423,564</u>	<u>423,564</u>
	3,655,231	3,624,731
Less: accumulated depreciation	<u>(2,213,657)</u>	<u>(2,079,545)</u>
 Total Property and Equipment, net	 <u>\$ 1,441,574</u>	 <u>\$ 1,545,186</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 (6.5% and 6.00%, respectively, at June 30, 2019 and 2018). The line of credit is renewed annually. Interest is payable monthly. SoundWaters maintains an additional line of credit with another bank for \$75,000 at 2.5% over bank's prime lending rate. 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, 2019 or 2018.

Interest incurred and paid to all sources during the years ended June 30, 2019 and 2018 was \$3,827 and \$1,884, respectively.

NOTE 9 – DEFERRED REVENUE

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

NOTE 10 – NET ASSETS

Net assets with donor restrictions were available for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Scholarship	\$ 335,436	\$ 240,389
Education	242,144	354,867
Capital Campaign - Harbor project	1,449,281	-
Other	10,000	7,266
Unappropriated endowment funds	99,591	42,107
Endowment funds held in perpetuity	<u>733,617</u>	<u>733,617</u>
Total Net Assets with Donor Restrictions	<u>\$ 2,870,069</u>	<u>\$ 1,378,246</u>

Net assets released from restrictions as of June 30:

	<u>2019</u>	<u>2018</u>
Scholarship	\$ 91,377	\$ 51,710
Education	272,948	230,639
Capital campaign - Harbor project	72,460	-
Other	<u>7,266</u>	<u>7,733</u>
Total Net Assets with Donor Restrictions	<u>\$ 444,051</u>	<u>\$ 290,082</u>

The Organization's endowment consists of \$733,617 of donations that are intended to be held in perpetuity, 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 Trustees to function as endowments. 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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 – NET ASSETS (Continued)

Interpretation of Relevant Endowment Law

The Organization’s Board of Trustees 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 net assets with donor restrictions (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.

Endowment net asset composition by type of fund as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 833,207	\$ 833,207
Board-designated endowment funds	<u>838,585</u>	<u>-</u>	<u>838,585</u>
Total Funds	<u>\$ 838,585</u>	<u>\$ 833,207</u>	<u>\$ 1,671,792</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 775,723	\$ 775,723
Board-designated endowment funds	<u>793,635</u>	<u>-</u>	<u>793,635</u>
Total Funds	<u>\$ 793,635</u>	<u>\$ 775,723</u>	<u>\$ 1,569,358</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 10 – NET ASSETS (continued)

Changes in endowment net assets for the years ended June 30:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year at July 1, 2017	\$ 161,664	\$ 733,617	\$ 895,281
Investment return:			
Investment income	25,414	28,952	54,366
Net appreciation (realized and unrealized)	19,786	22,539	42,325
Investment fees	<u>(8,237)</u>	<u>(9,385)</u>	<u>(17,622)</u>
Total Investment Return	<u>36,963</u>	<u>42,106</u>	<u>79,069</u>
Transfers to create board-designated endowment	<u>595,008</u>	<u>-</u>	<u>595,008</u>
Endowment net assets, year ended June 30, 2018	\$ 793,635	\$ 775,723	\$ 1,569,358
Investment return:			
Investment income	24,812	31,731	56,543
Net appreciation (realized and unrealized)	27,970	35,770	63,740
Investment fees	<u>(7,832)</u>	<u>(10,017)</u>	<u>(17,849)</u>
Total Investment Return	44,950	57,484	102,434
Endowment net assets, year ended June 30, 2019	<u>\$ 838,585</u>	<u>\$ 833,207</u>	<u>\$ 1,671,792</u>

NOTE 11 – IN-KIND CONTRIBUTIONS

During the years ended June 30, 2019 and 2018, the Organization received donations of various small boats with a total value of \$28,500 and \$18,050, respectively. 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, 2019 and 2018, 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 30 years and a negotiated minimum rent for an additional 20 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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 12 – LEASES (continued)

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, 2019 and 2018 was \$6,318 and \$6,386, respectively.

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

2020	\$ 4,565
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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, 2019 and 2018. 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.

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

During 2019, the Organization received approximately 40 percent of its donations from five donors of which 93 percent were restricted donations to the capital campaign.

The Organization maintains its cash and cash equivalent balances at various financial institutions. The balances in these accounts may at times exceed federally insured limits. At June 30, 2019, the Organization's uninsured cash and equivalents balance totaled \$214,205.

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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 \$22,447 and \$19,641 in 2019 and 2018, 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, 2019. 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, 2019, \$50,000 was accrued toward the plan. The contribution and related investment return are maintained in a separate account, as required by the plan. As per the plan document, all funds were distributed in July 2019.

NOTE 18 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 19, 2019, the date that the financial statements were available to be issued.

In October 2019, the Organization amended and restated their lease and assignment of rights agreement with the City of Stamford. The new agreement extended the terms of the previous agreement and formally listed SoundWater's Inc as the lessee, the previous agreement referenced Young Mariner's Foundation, Inc. as the lessee.