



**SOUNDWATERS, INC.**

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

**For the Years Ended June 30, 2020 and 2019**

**MARKS PANETH**

ACCOUNTANTS & ADVISORS

**SOUNDWATERS, INC.**  
**FINANCIAL STATEMENTS**  
**(Together with Independent Auditors' Report)**  
**FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors 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, 2020 and 2019, 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 audits 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, 2020 and 2019, 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.

*Marks Paneth CP*

Purchase, NY  
October 15, 2020

**SOUNDWATERS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,316,674	\$ 537,115
Investments	3,261,009	2,703,739
Accounts receivable	135,600	181,170
Contributions receivable, current portion	461,126	176,293
Prepaid expenses	69,241	63,958
Other assets	26,368	18,841
Total Current Assets	5,270,018	3,681,116
<b>Property and equipment, net</b>	1,370,580	1,441,574
<b>Construction in progress</b>	137,887	83,705
<b>Contributions receivable, net of current portion</b>	94,772	218,427
 <b>TOTAL ASSETS</b>	 <b>\$ 6,873,257</b>	 <b>\$ 5,424,822</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 132,175	\$ 208,948
Deferred revenue	333,773	455,095
Refundable advances	171,919	-
Loans and notes payable, current portion	91,441	-
Total Current Liabilities	729,308	664,043
<b>Loans and notes payable, long-term portion</b>	116,473	-
<b>Deferred compensation</b>	94,752	75,752
<b>Net Assets</b>		
Without donor restrictions	1,886,792	1,814,958
With donor restrictions	4,045,932	2,870,069
Total Net Assets	5,932,724	4,685,027
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 6,873,257</b>	 <b>\$ 5,424,822</b>

See accompanying notes to financial statements.

**SOUNDWATERS, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>			<u>2019</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>
<b>Public Support and Revenue</b>						
Direct support	\$ 537,321	\$ 1,573,079	\$ 2,110,400	\$ 495,646	\$ 1,770,290	\$ 2,265,936
Special events revenue	86,749	-	86,749	319,634	108,100	427,734
Direct benefits to donors	(10,392)	-	(10,392)	(101,831)	-	(101,831)
Education programs and other revenue	705,388	-	705,388	860,473	-	860,473
Government grants - operations	202,114	-	202,114	83,539	-	83,539
Other revenue	28,108	-	28,108	19,017	-	19,017
Investment return	<u>70,582</u>	<u>46,495</u>	<u>117,077</u>	<u>48,553</u>	<u>57,484</u>	<u>106,037</u>
Total Public Support and Revenue	1,619,870	1,619,574	3,239,444	1,725,031	1,935,874	3,660,905
Net assets released from restrictions	<u>443,711</u>	<u>(443,711)</u>	<u>-</u>	<u>444,051</u>	<u>(444,051)</u>	<u>-</u>
Total Public Support and Revenue	<u>2,063,581</u>	<u>1,175,863</u>	<u>3,239,444</u>	<u>2,169,082</u>	<u>1,491,823</u>	<u>3,660,905</u>
<b>Functional Expenses</b>						
Program services	1,543,823	-	1,543,823	1,707,297	-	1,707,297
Management and general	186,084	-	186,084	194,635	-	194,635
Fund development	<u>261,840</u>	<u>-</u>	<u>261,840</u>	<u>276,162</u>	<u>-</u>	<u>276,162</u>
Total Functional Expenses	<u>1,991,747</u>	<u>-</u>	<u>1,991,747</u>	<u>2,178,094</u>	<u>-</u>	<u>2,178,094</u>
<b><u>CHANGE IN NET ASSETS</u></b>	71,834	1,175,863	1,247,697	(9,012)	1,491,823	1,482,811
Net assets - beginning 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>
Net assets - end of year	<u>\$ 1,886,792</u>	<u>\$ 4,045,932</u>	<u>\$ 5,932,724</u>	<u>\$ 1,814,958</u>	<u>\$ 2,870,069</u>	<u>\$ 4,685,027</u>

See accompanying notes to financial statements.

**SOUNDWATERS, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	2020				2019			
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND DEVELOPMENT	TOTAL	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND DEVELOPMENT	TOTAL
Salaries and related expenses	\$ 1,029,071	\$ 132,920	\$ 146,033	\$ 1,308,024	\$ 1,116,196	\$ 117,681	\$ 134,322	\$ 1,368,199
Supplies	58,412	2,389	13,236	74,037	64,879	6,976	26,589	98,444
Transportation	14,273	1,501	117	15,891	22,953	2,250	306	25,509
Food	12,222	4,624	1,177	18,023	22,991	4,264	57,265	84,520
Occupancy	94,082	155	4,365	98,602	96,944	-	29,697	126,641
Postage and freight	1,967	766	3,212	5,945	2,558	3,734	1,594	7,886
Printing	5,753	429	7,839	14,021	8,973	513	10,690	20,176
Advertising and marketing	8,919	15	8,240	17,174	11,167	142	8,523	19,832
Professional fees	55,325	28,631	52,448	136,404	52,532	34,860	83,305	170,697
Meetings, dues and subscriptions	7,071	285	898	8,254	6,195	642	608	7,445
Maintenance	55,442	3,753	3,754	62,949	79,085	3,637	3,637	86,359
Telephone	11,482	1,147	1,146	13,775	11,199	1,114	1,114	13,427
Insurance	76,391	2,708	2,709	81,808	76,851	2,786	2,786	82,423
Interest	-	-	-	-	-	3,827	-	3,827
Merchant fees	-	-	20,845	20,845	13,274	-	10,851	24,125
Scholarships and awards	-	-	-	-	-	2,000	-	2,000
Other expenses	1,567	547	-	2,114	800	3,503	-	4,303
Depreciation	111,846	6,214	6,213	124,273	120,700	6,706	6,706	134,112
Total Expenses	<u>1,543,823</u>	<u>186,084</u>	<u>272,232</u>	<u>2,002,139</u>	<u>1,707,297</u>	<u>194,635</u>	<u>377,993</u>	<u>2,279,925</u>
Less: direct benefits to donors recorded on statements of activities and changes in net assets	<u>-</u>	<u>-</u>	<u>(10,392)</u>	<u>(10,392)</u>	<u>-</u>	<u>-</u>	<u>(101,831)</u>	<u>(101,831)</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 1,543,823</u>	<u>\$ 186,084</u>	<u>\$ 261,840</u>	<u>\$ 1,991,747</u>	<u>\$ 1,707,297</u>	<u>\$ 194,635</u>	<u>\$ 276,162</u>	<u>\$ 2,178,094</u>

See accompanying notes to financial statements.

**SOUNDWATERS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	<u>\$ 1,247,697</u>	<u>\$ 1,482,811</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	124,273	134,112
Realized and unrealized gain on investments	(65,228)	(63,170)
Changes in Operating Assets and Liabilities:		
Accounts receivable	45,570	67,320
Contributions receivable	(161,178)	(285,088)
Prepaid expenses	(5,283)	(19,411)
Other assets	(7,527)	-
Accounts payable	(76,773)	29,497
Deferred revenue	(121,322)	(34,987)
Deferred compensation	19,000	19,485
Refundable advance	171,919	-
Total Adjustments	<u>(76,549)</u>	<u>(152,242)</u>
Net Cash Provided by Operating Activities	<u>1,171,148</u>	<u>1,330,569</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of investments	754,790	615,160
Purchases of investments	(1,246,832)	(1,649,000)
Purchases of property and equipment	<u>(107,461)</u>	<u>(58,765)</u>
Net Cash Used in Investing Activities	<u>(599,503)</u>	<u>(1,092,605)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans and notes payable	207,914	155,000
Principal payments on loans and notes payable	<u>-</u>	<u>(155,000)</u>
Net Cash Provided by Financing Activities	<u>207,914</u>	<u>-</u>
<b><u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u></b>	<b>779,559</b>	<b>237,964</b>
Cash and cash equivalents - beginning of year	<u>537,115</u>	<u>299,151</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,316,674</u></u>	<u><u>\$ 537,115</u></u>

See accompanying notes to financial statements.

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**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 research 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 values 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. Thirty years later, SoundWaters now 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 – currently a temporary site and soon to be built out as the SoundWaters Harbor Center – offers ideal space for sailing, water quality research, aquaculture and more. The schooner 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 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. In 2020, SoundWaters connected over 5,000 people to our local environment through these programs, which 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. At SoundWaters, we believe that a healthy community is a human right, and we work every day to make this a reality for all.

**NOTE 2 – STAMFORD HARBOR CENTER**

Through the acquisition of the Young Mariners Foundation (“YMF”) in January 2016, the Organization acquired a lease with the City of Stamford for the use of waterfront property located at John J. Boccuzzi Park. The lease provided for the construction of a permanent facility and marina that would serve as YMF’s primary base for sailing instruction in Stamford. Rent due under the lease is one dollar per year to be paid to the City of Stamford throughout the lease term.

In 2019 the lease was amended to among other things, insert SoundWaters as the lessee for a period of 50 years. The City of Stamford agreed to the lease amendment to accommodate the Organization’s plans to build the Stamford Harbor Center, a new educational facility to be located at the lease site (the “Project”). 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, 2020 and 2019. These amounts are reflected as both general contributions and facilities expenses in the accompanying statements of activities and change in net assets.

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 2 – STAMFORD HARBOR CENTER (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 contribution receivable once all contingencies in the lease agreement have been satisfied.

The Project commenced in October 2019 and is expected to be completed in the spring of 2022, in time to accommodate SoundWaters summer programming. The Project is currently budgeted at approximately \$8.0 million. The entire funding for the Project will be generated from donor contributions.

As of June 30, 2020, the Organization has received a conditional two million dollar grant from the State of Connecticut. This grant has not been recognized in the accompanying financial statements as it will be received in future periods once the provisions of the grant are met. These provisions include that the funds must be expended in accordance with the grant terms, and that the Organization may be required to return funds previously received if the terms of the grant are not complied with.

Additionally, the Organization received a conditional three million dollar commitment from a donor which is payable in three one million dollar installments. The first installment was received and recognized as revenue upon SoundWaters receiving approval from the Stamford Board of Representatives for a lease amendment to allow construction for the Project. The second installment is contingent upon commencement of the construction at the Project site. And the final installment is contingent upon the substantial completion of the Project. The two million in outstanding installments are not included in these financial statements due to their contingent nature.

As of June 30, 2020, construction-in-progress consists primarily of the initial planning costs related to the construction of the Project. The Organization incurred construction-in-progress costs of \$137,887 and \$83,705 as of June 30, 2020 and 2019, respectively. Construction costs related are being capitalized as phases of that project work are placed in service.

**NOTE 3 – 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:

- 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.

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 the net assets with donor restrictions class.

*Contributions 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.

Government grants and contracts are nonexchange transactions (contributions) and accounted for under Accounting Standards Update (“ASU”) 2018-08. Grants and contracts, as with all contributions, are recognized as revenue when barriers within the contract are overcome, and there is no right of return. Grants and contracts amounted to \$202,114 and \$83,539 as of June 30, 2020 and 2019, respectively, and are included in the statements of activities and changes in net assets. There are instances when the Organization receives advances from the governmental funding sources. Such advances are recorded as refundable advances from governmental agencies in the accompanying statements of financial position, if applicable.

**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, 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, 2020 AND 2019**

**NOTE 3 – 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 and Marketing 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 Contributions Receivable**

The Organization carries accounts and contributions 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.

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.

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

**Reclassifications**

Certain reclassifications were made to the presentation of the 2019 financial statements to conform to the 2020 financial statement presentation.

**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, 2020, 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 Adopted Accounting Standards**

The FASB issued ASU 2018-08, “Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.” Topic 958 was also adopted by the Organization for the year ended June 30, 2020. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution or government grant is conditional.

**NOTE 4 – 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, the Organization’s financial assets were as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,316,674	\$ 537,115
Investments	3,261,009	2,703,739
Accounts receivable	135,600	181,170
Contributions receivable, net	<u>555,898</u>	<u>394,720</u>
Subtotal financial assets at year end	5,269,181	3,816,744

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 4 – LIQUIDITY AND AVAILABILITY OF RESOURCES FOR GENERAL EXPENDITURES**  
**(Continued)**

Less amounts with limits on usage:		
Spendable net assets with donor restrictions	(2,645,463)	(1,459,280)
Investments with restricted use	(106,752)	(126,826)
Endowment assets – board designated	(885,381)	(838,585)
Endowment assets with donor restrictions	<u>(839,555)</u>	<u>(833,207)</u>
 Total financial assets available for general use within one year	 <u>\$ 792,030</u>	 <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 of Directors (“Board”) designates a portion of any operating surplus to operating reserve. This reserve, established by the Board, may be drawn upon, if necessary, to meet unexpected liquidity needs or in the event of financial distress.

**NOTE 5 – INVESTMENTS**

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

	<u>2020</u>	<u>2019</u>
Certificates of deposit	\$ 1,523,628	\$ 1,004,173
Equities	347,008	347,177
Corporate bonds	110,534	102,911
Government and agency bonds	258,535	235,944
Mutual funds – equities	769,469	792,486
Mutual funds – fixed income	<u>251,835</u>	<u>221,048</u>
 Total Investments	 <u>\$ 3,261,009</u>	 <u>\$ 2,703,739</u>

Investment return is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 69,461	\$ 60,716
Net realized and unrealized gains on investments	65,228	63,170
Investment expenses	<u>(17,612)</u>	<u>(17,849)</u>
 Total Investment Return	 <u>\$ 117,077</u>	 <u>\$ 106,037</u>

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 – ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ 68,138	\$ 170,812
Other receivables	<u>67,462</u>	<u>10,358</u>
Total Accounts Receivable	<u>\$ 135,600</u>	<u>\$ 181,170</u>

**NOTE 7 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable at June 30 represent promises to give payable from individuals and private organizations over periods of up to five years. Contributions receivable classified as a non-current asset are contributions expected to be received within the next five years. Contributions receivable at June 30, 2020 and 2019 are net of a present value discount of \$5,197 and \$10,061, respectively.

**NOTE 8 – PROPERTY AND EQUIPMENT**

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

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 2,173,597	\$ 2,173,597
Schooner <i>SoundWaters</i>	726,228	694,017
Small boats	237,790	236,009
Office equipment	125,749	128,044
Exhibits and displays	<u>425,553</u>	<u>423,564</u>
	3,688,917	3,655,231
Less: accumulated depreciation	<u>(2,318,337)</u>	<u>(2,213,657)</u>
Total Property and Equipment, net	<u>\$ 1,370,580</u>	<u>\$ 1,441,574</u>

**NOTE 9 – DEFERRED REVENUE**

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

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**NOTE 10 – REFUNDABLE ADVANCES**

Refundable advances consist primarily of special event underwriting and ticket revenues for events that will take place in the next fiscal year.

**NOTE 11 – LOANS AND NOTES PAYABLE**

**Line of Credit**

SoundWaters maintains a \$375,000 line of credit with a bank at 1% over the bank's prime lending rate (4.25% and 6.5%, respectively, at June 30, 2020 and 2019). The line of credit is renewed annually. Interest is payable monthly. SoundWaters maintains an additional line of credit with another bank for \$250,000 at .5% over the bank's prime lending rate. The line is unsecured and has a 36 month term. There were no amounts outstanding on the lines at June 30, 2020 or 2019.

Interest incurred and paid to all sources during the years ended June 30, 2020 and 2019 was \$0 and \$3,827, respectively.

**Paycheck Protection Program Loan**

On April 22, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$208,261 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration.

The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses and expects to qualify for full forgiveness. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in November 2020, principal and interest payments will be required through the maturity date in April 2022.

The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default. Principal payments on this debt, if not forgiven, will be as follows:

2021	\$ 91,441
2022	<u>116,473</u>
Total PPP Loan Payable	<u>\$ 207,914</u>

**SOUNDWATERS, INC.**  
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**NOTE 12 – NET ASSETS**

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

	<u>2020</u>	<u>2019</u>
Scholarship	\$ 242,114	\$ 335,437
Education	318,800	242,144
Capital Campaign - Harbor project	2,645,463	1,449,281
Other	-	10,000
Unappropriated endowment funds	105,938	99,590
Endowment funds held in perpetuity	<u>733,617</u>	<u>733,617</u>
 Total Net Assets with Donor Restrictions	 <u>\$ 4,045,932</u>	 <u>\$ 2,870,069</u>

Net assets released from restrictions as of June 30:

	<u>2020</u>	<u>2019</u>
Scholarship	\$ 154,239	\$ 91,377
Education	195,144	272,948
Capital Campaign - Harbor project	54,181	72,460
Other	<u>40,147</u>	<u>7,266</u>
 Total Net Assets Released from Donor Restrictions	 <u>\$ 443,711</u>	 <u>\$ 444,051</u>

The Organization's endowment consists of \$733,617 of donations that are intended to be held in perpetuity. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board 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 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.

**SOUNDWATERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 12 – NET ASSETS (Continued)**

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, 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 839,555	\$ 839,555
Board-designated endowment funds	<u>885,381</u>	<u>-</u>	<u>885,381</u>
Total Funds	<u>\$ 885,381</u>	<u>\$ 839,555</u>	<u>\$ 1,724,936</u>

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

	<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>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year at July 1, 2018	<u>\$ 793,635</u>	<u>\$ 775,723</u>	<u>\$ 1,569,358</u>
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	<u>44,950</u>	<u>57,484</u>	<u>102,434</u>
Endowment net assets, year ended June 30, 2019	<u>\$ 838,585</u>	<u>\$ 833,207</u>	<u>\$ 1,671,792</u>
Investment return:			
Investment income	22,911	22,764	45,675
Net appreciation (realized and unrealized)	32,719	32,509	65,228
Investment fees	<u>(8,834)</u>	<u>(8,778)</u>	<u>(17,612)</u>
Total Investment Return	46,796	46,495	93,291
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(40,147)</u>	<u>(40,147)</u>
Endowment net assets, year ended June 30, 2020	<u>\$ 885,381</u>	<u>\$ 839,555</u>	<u>\$ 1,724,936</u>

**SOUNDWATERS, INC.**  
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**NOTE 13 – IN-KIND CONTRIBUTIONS**

During the years ended June 30, 2020 and 2019, the Organization received donations of various small boats with a total value of \$8,500 and \$28,500, 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, 2020 and 2019, 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 14 – 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.

The Organization also leases certain office equipment under operating lease agreements. The leases expire between November 2019 and October 2025. Lease expense under the operating lease for the years ended June 30, 2020 and 2019 was \$4,517 and \$6,318, respectively.

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

2021	\$ 3,828
2022	3,828
2023	3,828
2024	3,828
2025	1,595

**NOTE 15 – SPECIAL EVENTS**

The Organization runs various special events during the year; the major fundraising event is the Tall Ships Ball. This year’s Tall Ships Ball event was postponed until Fall 2020, and ultimately canceled due to public health concerns due to the COVID-19 pandemic.

**NOTE 16 – CONCENTRATIONS OF CREDIT RISK**

During 2020, the Organization received approximately 55 percent of its donations from five donors of which 85 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, 2020, the Organization’s uninsured cash and equivalents balance totaled \$923,700.

**SOUNDWATERS, INC.**  
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**NOTE 17 – 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 18 – 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 \$24,860 and \$22,447 in 2020 and 2019, respectively.

**NOTE 19 – 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, 2020. Any amounts contributed under this plan will vest immediately when paid.

The second plan is funded by SoundWaters and will vest after three years from the inception of the plan in accordance with the plan document. At June 30, 2020, \$12,000 was accrued toward the plan. The contribution and related investment return are maintained in a separate account, as required by the plan.

**NOTE 20 – COVID-19 PANDEMIC**

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on our business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, we are currently unable to fully determine the extent of COVID-19's impact on our business in future periods. Our performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. We continue to monitor evolving economic and general business conditions and the actual and potential impacts on our financial position and results.

**NOTE 21 – SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through October 15, 2020, the date that the financial statements were available to be issued.