



SoundWaters

SOUNDWATERS

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

For the Years Ended June 30, 2022 and 2021



SOUNDWATERS
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets.....	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-18



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SoundWaters, Inc.

Opinion

We have audited the financial statements of SoundWaters, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SoundWaters, Inc. as of June 30, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of SoundWaters, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on 2021 Financial Statements

The financial statements of SoundWaters, Inc. as of and for the year ended June 30, 2021 were audited by another auditor whose report dated October 25, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SoundWaters, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SoundWaters, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SoundWaters, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Mayer Hoffman McCann P.C.

Purchase, NY
December 5, 2022

**SOUNDWATERS
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2022 AND 2021**

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,457,287	\$ 5,056,727
Investments	1,851,545	2,065,105
Accounts receivable	390,540	104,986
Contributions receivable, current portion	1,057,372	1,045,840
Prepaid expenses	71,931	62,293
Other assets	26,628	21,114
Total Current Assets	5,855,303	8,356,065
Property and Equipment, net	1,216,137	1,191,765
Construction in Progress	7,217,565	959,871
Contributions Receivable, net of current portion	1,670,787	1,999,015
TOTAL ASSETS	\$ 15,959,792	\$ 12,506,716
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 597,561	\$ 219,255
Deferred revenue	371,843	516,331
Paycheck Protection Program loan payable, current portion	-	26,154
Total Current Liabilities	969,404	761,740
Paycheck Protection Program Loan Payable, Long-term Portion	-	194,006
Deferred Compensation	119,029	103,509
TOTAL LIABILITIES	1,088,433	1,059,255
Net Assets		
Without donor restrictions	9,550,533	3,034,588
With donor restrictions	5,320,826	8,412,873
Total Net Assets	14,871,359	11,447,461
TOTAL LIABILITIES AND NET ASSETS	\$ 15,959,792	\$ 12,506,716

See accompanying notes to financial statements.

SOUNDWATERS
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>			<u>2021</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, net of discount on pledges	\$ 1,311,497	\$ 2,894,089	\$ 4,205,586	\$ 498,733	\$ 5,726,195	\$ 6,224,928
Contributed non-financial assets	56,500	-	56,500	65,000	-	65,000
Special events revenue	373,039	73,994	447,033	58,664	-	58,664
Net direct benefit to donors	(83,200)	-	(83,200)	-	-	-
Education programs and other revenue	895,583	-	895,583	615,272	-	615,272
Government grants - operations	278,065	-	278,065	147,506	-	147,506
Forgiveness of Paycheck Protection Program loan	221,590	-	221,590	209,549	-	209,549
Other revenue	29,020	-	29,020	19,608	-	19,608
Investment return	(133,901)	(134,371)	(268,272)	217,070	196,622	413,692
Net assets released from restrictions	5,925,759	(5,925,759)	-	1,555,876	(1,555,876)	-
Total Public Support and Revenue	<u>8,873,952</u>	<u>(3,092,047)</u>	<u>5,781,905</u>	<u>3,387,278</u>	<u>4,366,941</u>	<u>7,754,219</u>
Expenses						
Functional Expenses						
Program services	1,625,430	-	1,625,430	1,386,258	-	1,386,258
Management and general	230,863	-	230,863	254,683	-	254,683
Fund development	501,714	-	501,714	479,453	-	479,453
Total Functional Expenses	<u>2,358,007</u>	<u>-</u>	<u>2,358,007</u>	<u>2,120,394</u>	<u>-</u>	<u>2,120,394</u>
CHANGE IN NET ASSETS	6,515,945	(3,092,047)	3,423,898	1,147,796	4,366,941	5,514,737
Net assets - beginning of year	<u>3,034,588</u>	<u>8,412,873</u>	<u>11,447,461</u>	<u>1,886,792</u>	<u>4,045,932</u>	<u>5,932,724</u>
Net assets - end of year	<u>\$ 9,550,533</u>	<u>\$ 5,320,826</u>	<u>\$ 14,871,359</u>	<u>\$ 3,034,588</u>	<u>\$ 8,412,873</u>	<u>\$ 11,447,461</u>

See accompanying notes to financial statements.

**SOUNDWATERS
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2022 AND 2021**

	2022				2021			
	<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	\$ 1,008,258	\$ 154,701	\$ 248,477	\$ 1,411,436	\$ 863,162	\$ 203,327	\$ 153,967	\$ 1,220,456
Supplies	76,327	3,830	25,733	105,890	56,368	3,668	19,389	79,425
Transportation	12,956	472	23	13,451	5,075	156	59	5,290
Food	13,472	895	48,767	63,134	3,343	530	755	4,628
Occupancy	101,836	-	34,489	136,325	94,630	233	-	94,863
Postage and freight	407	402	2,919	3,728	3,456	382	3,826	7,664
Printing	3,254	268	10,286	13,808	4,976	333	6,930	12,239
Advertising and marketing	13,620	-	13,763	27,383	10,077	337	5,600	16,014
Professional fees	84,291	55,086	192,768	332,145	78,110	29,180	270,791	378,081
Meetings, dues and subscriptions	9,673	591	1,219	11,483	6,846	926	1,051	8,823
Maintenance	61,697	2,296	(16,037)	47,956	44,154	3,247	3,247	50,648
Telephone	11,515	1,240	1,240	13,995	12,176	1,302	1,301	14,779
Insurance	93,950	3,496	3,497	100,943	79,174	2,818	2,818	84,810
Interest	-	1,430	-	1,430	-	1,635	-	1,635
Merchant fees	17,841	-	10,958	28,799	18,013	-	4,110	22,123
Other expenses	5,526	-	656	6,182	5,746	1,000	-	6,746
Depreciation	110,807	6,156	6,156	123,119	100,952	5,609	5,609	112,170
	<u>1,625,430</u>	<u>230,863</u>	<u>584,914</u>	<u>2,441,207</u>	<u>1,386,258</u>	<u>254,683</u>	<u>479,453</u>	<u>2,120,394</u>
Less: net direct benefit to donors recorded on statement of activities	<u>-</u>	<u>-</u>	<u>(83,200)</u>	<u>(83,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 1,625,430</u>	<u>\$ 230,863</u>	<u>\$ 501,714</u>	<u>\$ 2,358,007</u>	<u>\$ 1,386,258</u>	<u>\$ 254,683</u>	<u>\$ 479,453</u>	<u>\$ 2,120,394</u>

See accompanying notes to financial statements.

SOUNDWATERS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	<u>\$ 3,423,898</u>	<u>\$ 5,514,737</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	123,119	112,170
Realized and unrealized loss (gain) on investments	304,063	(376,205)
Contributions with perpetual donor restrictions	(50,000)	-
Loss on impairment of fixed asset	-	119,088
Forgiveness of debt - Paycheck Protection Program loan payable	(220,160)	(207,914)
Changes in Operating Assets and Liabilities:		
Accounts receivable	(285,554)	30,614
Contributions receivable	316,696	(2,488,957)
Prepaid expenses	(9,638)	6,948
Other assets	(5,514)	5,254
Accounts payable and accrued expenses	378,306	87,080
Deferred revenue	(144,488)	182,558
Deferred compensation	15,520	8,757
Refundable advances	<u>-</u>	<u>(171,919)</u>
Total Adjustments	<u>422,350</u>	<u>(2,692,526)</u>
Net Cash Provided by Operating Activities	<u>3,846,248</u>	<u>2,822,211</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	938,507	1,673,004
Purchases of investments	(1,029,010)	(100,895)
Payments for construction in progress	(6,351,133)	(821,984)
Purchases of property and equipment	<u>(54,052)</u>	<u>(52,443)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(6,495,688)</u>	<u>697,682</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contribution for investment	50,000	-
Proceeds from Paycheck Protection Program Loan	<u>-</u>	<u>220,160</u>
Net Cash Provided by Financing Activities	<u>50,000</u>	<u>220,160</u>
<u>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</u>	(2,599,440)	3,740,053
Cash and cash equivalents - beginning of year	<u>5,056,727</u>	<u>1,316,674</u>
Cash and cash equivalents - end of year	<u>\$ 2,457,287</u>	<u>\$ 5,056,727</u>

See accompanying notes to financial statements.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 – THE ORGANIZATION

SoundWaters, Inc. (“SoundWaters” or the “Organization”) is a not-for-profit organization whose mission is to protect Long Island Sound through education. SoundWaters enriches its community and protects its environment through teaching, training, sailing and research on Long Island Sound. SoundWaters’ goal is a sustainable environment where people have a passion for the Long Island Sound, where students succeed and its 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 its programs due to an inability to pay. Overall, nearly one half of the students taught 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 its first year it reached a few hundred students aboard ship. Thirty years later, SoundWaters now reaches and teaches approximately 35,000 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.

The Organization’s 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. The Organization’s new site at Stamford Harbor – currently a temporary site and soon to be open as the Cohen 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 2022, SoundWaters connected over 5,000 people to its local environment through these programs, which range from public sails to paddle sports 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, thereby creating a legacy of joyful learning and lifelong stewardship. SoundWaters believes that a healthy community is a human right, and works every day to make this a reality for all.

NOTE 2 – COHEN SOUNDWATERS HARBOR CENTER

SoundWaters is a party to a long-term lease with the City of Stamford for the use of waterfront property located at John J. Boccuzzi Park (“Boccuzzi Park”) which requires SoundWaters to build an educational facility to serve as a base for sailing, environmental science and job training instruction on the Long Island Sound. Rent due under the lease is one dollar per year to be paid to the City throughout the fifty year lease term.

Management estimates the value of the conditional pledge for the lease of land on which the facility, the Cohen SoundWaters Harbor Center (the “Harbor Center”) is being 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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 – COHEN SOUNDWATERS HARBOR CENTER (Continued)

The Harbor Center is expected to receive a temporary certificate of occupancy (the “TCO”) from the City in the second half of 2022. The Harbor Center is currently budgeted at \$11,000,000 with donor contributions completely funding the budgeted cost. Included in these contributions is a conditional \$2,000,000 grant from the State of Connecticut of which \$2,000,000 was received as of June 30, 2022. The provisions of the grant require the funds be expended in accordance with the grant terms, otherwise they would be subject to forfeiture. To date, all provisions of the grant have been met. Additionally, SoundWaters received a \$3,000,000 commitment from the Steven & Alexandra Cohen Foundation that was payable in three installments of \$1,000,000 each. The first and second installments of \$1,000,000 each were received and recognized as revenue during the years ended June 30, 2021 and 2020, respectively. The final \$1,000,000 installment was received on October 4, 2022 and will be recognized as revenue in the upcoming fiscal year, as such the final installment has not been included in these financial statements.

The Project is part of a City multimillion dollar plan to upgrade the Park. The lease stipulated that the City was required to make the property improvements necessary to support the Project. In an effort to assist the City in meeting its obligations under the lease, SoundWaters Board of Directors authorized management to negotiate the First Amendment to Temporary Construction and Access Easement Agreement with the City. This amendment enables SoundWaters to oversee and execute the City’s required portion of the improvement plan. The amendment requires the City to pay SoundWaters up to \$2,019,684 for specifically defined trench, drainage and site work (the “City Work”). Completion of the City Work is required for SoundWaters to receive the TCO. The City Work is expected to be completed in the second half of 2022.

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.

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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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.

Contributed Non-financial Assets: 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.

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 \$2,153,065 and \$272,506 for the years ended June 30, 2022 and 2021, 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.

Camp Fees, Facility Rentals, Program and Other Fees

The Organization receives revenue from camp fees, kayak and paddleboard rentals, young mariner’s fees and various other program services fees which are accounted for under FASB Accounting Standards Update (“ASU”) 2014-09. Revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing the contracted services. For facility rentals, the Organization bills for direct costs based on a contract, or when services are performed. Receivables are due in full when billed and revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization in accordance with the contract. Revenue for performance obligations satisfied over time is recognized as the services are provided. This method depicts the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. There are no performance obligations or contract balances that are unsatisfied as of June 30, 2022.

Education programs and other revenue consist of camp fees, kayak and paddle board rental, young mariner’s academy and various program fees as follows, for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Camp fees (net of scholarships and awards)	\$ 345,224	\$ 330,547
Kayak and paddleboard	38,286	83,226
Young mariner’s academy (net of scholarships)	26,308	27,401
Other program fees	<u>485,765</u>	<u>174,098</u>
Total	<u>\$ 895,583</u>	<u>\$ 615,272</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are carried at cost, if purchased, or at fair values on dates donated, if contributed less accumulated depreciation. 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 \$5,000 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.

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.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2022, 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 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 twelve-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 twelve months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,457,287	\$ 5,056,727
Investments	1,851,545	2,065,105
Accounts receivable	390,540	104,986
Contributions receivable, net	<u>2,728,159</u>	<u>3,044,855</u>
Subtotal financial assets at year end	7,427,531	10,271,673
Less amounts with limits on usage:		
Spendable net assets with donor restrictions	(3,671,647)	(6,800,352)
Investments with restricted use	(155,190)	(115,615)
Endowment assets – board designated	(951,027)	(1,092,732)
Endowment assets with donor restrictions	<u>(951,806)</u>	<u>(1,036,178)</u>
Total financial assets available for general use within one year	<u>\$ 1,697,861</u>	<u>\$ 1,226,796</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments. 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. The Organization has access to several lines of credit as well.

NOTE 5 – INVESTMENTS

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

	<u>2022</u>	<u>2021</u>
Equities	\$ 260,364	\$ 317,255
Mutual funds – equities	951,334	1,077,738
Mutual funds – fixed income	<u>639,847</u>	<u>670,112</u>
Total Investments	<u>\$ 1,851,545</u>	<u>\$ 2,065,105</u>

Investment return is summarized as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 56,487	\$ 55,428
Net realized and unrealized (losses) gains on investments	(304,063)	376,205
Investment expenses	<u>(20,696)</u>	<u>(17,941)</u>
Total Investment Return	<u>\$ (268,272)</u>	<u>\$ 413,692</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 387,413	\$ 99,756
Other receivables	<u>3,127</u>	<u>5,230</u>
Total Accounts Receivable	<u>\$ 390,540</u>	<u>\$ 104,986</u>

NOTE 7 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30 represents 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 one to five years. Contributions receivable at June 30, 2022 and 2021 are net of a present value discount of \$259,732 and \$78,838, respectively.

NOTE 8 – PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 2,139,236	\$ 2,045,797
Schooner <i>SoundWaters</i>	729,328	729,328
Small boats	290,972	264,620
Office equipment	137,314	131,063
Exhibits and displays	<u>425,553</u>	<u>425,553</u>
	3,722,403	3,596,361
Less: accumulated depreciation	<u>(2,506,266)</u>	<u>(2,404,596)</u>
Total Property and Equipment, net	<u>\$ 1,216,137</u>	<u>\$ 1,191,765</u>

Depreciation expense was \$123,119 and \$112,170 for the years ended June 30, 2022 and 2021, respectively.

During 2022, certain assets having accumulated depreciation of \$21,449 were disposed of while certain assets that were fully depreciated were written off according to established policies.

During 2021, the Organization determined that a dredging project with a cost of \$145,000 and accumulated depreciation of \$25,912 was impaired and no longer had value. The excess of net book value was recognized as a loss on impairment of assets in the accompanying statement of activities for the year ended June 30, 2021.

NOTE 9 – DEFERRED REVENUE

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

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 4.25% at both June 30, 2022 and 2021 (1% over the bank's prime lending rate). The line of credit is renewed annually. There were no amounts outstanding on the line at June 30, 2022 or 2021.

Interest incurred and paid to all sources during the years ended June 30, 2022 and 2021 was \$0 and \$1,635, respectively.

Term Note

In June 2021, the Organization entered into a loan agreement to make available a non-revolving line of credit term note (the "Term Note") in the principal amount up to \$1,500,000 with a drawdown period through January 2023. The principal of the Term Note shall bear interest at a fixed rate equal to three and three quarters percent. There were no amounts outstanding on the note at June 30, 2022 or 2021.

Secured Loan

In June 2021, the Organization entered into a loan agreement to make available a revolving line of credit (the "Secured Line"). The Secured Line is secured by investments held by the Organization without donor restrictions. The Organization may draw down up to fifty percent of assets held in the investment account. Interest, at a rate of 2% over the London Interbank Offered Rate (2.081% at June 30, 2022), is payable monthly. There were no amounts outstanding on the note at June 30, 2022 or 2021.

Paycheck Protection Program Loan

On April 22, 2020, the Organization qualified for and received a loan pursuant to the first draw from the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$207,914 (the "PPP Loan One"). In March 2020, the Organization received notification from the lender that the PPP Loan One was fully forgiven and as such, the amount was "recognized" as income.

On February 23, 2021, the Organization received a second loan pursuant to the Paycheck Protection Program, for an aggregate principal amount of \$220,160 (the "PPP Loan Two"). The PPP Loan Two 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 Two is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan Two 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.

On October 12, 2021, the Organization applied for and received forgiveness for the PPP Loan Two amount of \$220,160.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 12 – NET ASSETS

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

	<u>2022</u>	<u>2021</u>
Unappropriated endowment funds	\$ 168,189	\$ 302,561
Endowment assets held in perpetuity	<u>783,617</u>	<u>733,617</u>
Total Endowment	951,806	1,036,178
Purpose and time restricted net assets		
Capital Campaign – Harbor project	3,671,647	6,800,352
Scholarship	253,589	182,043
Education	434,784	394,300
Other	<u>9,000</u>	<u>-</u>
Total Net Assets with Donor Restrictions	<u>\$ 5,320,826</u>	<u>\$ 8,412,873</u>

Net assets released from restrictions during each year were:

	<u>2022</u>	<u>2021</u>
Scholarship	\$ 89,790	\$ 224,456
Education	244,516	349,800
Capital Campaign – Harbor project	5,586,453	959,870
Other	<u>5,000</u>	<u>21,750</u>
Total Net Assets Released from Restrictions	<u>\$ 5,925,759</u>	<u>\$ 1,555,876</u>

The Organization’s endowment consists of \$783,617 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
JUNE 30, 2022 AND 2021

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.

Changes in endowment net assets are as follows for the years ended June 30, 2022 and 2021:

	<u>Board Designated</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year at July 1, 2020	\$ 885,381	\$ 839,555	\$ 1,724,936
Investment return:			
Investment income	22,935	21,750	44,685
Net appreciation (realized and unrealized)	193,626	183,605	377,231
Investment fees	<u>(9,209)</u>	<u>(8,732)</u>	<u>(17,941)</u>
Total Investment Return	<u>207,352</u>	<u>196,623</u>	<u>403,975</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, year ended June 30, 2021	\$ 1,092,733	\$ 1,036,178	\$ 2,128,911
Investment return:			
Investment income	24,987	23,694	48,681
Net depreciation (realized and unrealized)	(156,070)	(147,993)	(304,063)
Investment fees	<u>(10,623)</u>	<u>(10,073)</u>	<u>(20,696)</u>
Total Investment Return	(141,706)	(134,372)	(276,078)
Contributions	-	50,000	50,000
Appropriation of endowment assets for expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, year ended June 30, 2022	\$ 951,027	\$ 951,806	\$ 1,902,833

NOTE 13 – CONTRIBUTED NON-FINANCIAL ASSETS

For the year ended June 30, 2022, contributed nonfinancial assets recognized within the statement of activities included the following:

	<u>2022</u>	<u>2021</u>
Free use of facilities – office space	\$ 16,800	\$ 16,800
Free use of facilities – dock space	3,700	3,700
Utilities	36,000	36,000
Small boats and equipment	<u>-</u>	<u>8,500</u>
Total Contributed Non-financial Assets	<u>\$ 56,500</u>	<u>\$ 65,000</u>

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 13 – CONTRIBUTED NON-FINANCIAL ASSETS (Continued)

The Organization recognized contributed financial assets within revenue, including materials, equipment, services, and free use of facilities.

The Organization was provided free use of facilities for office and dock space. The facilities are provided at no cost to the Organization but based on current market rates for rental facilities the Organization would have paid \$20,700 in each year. In addition, utilities for the office space valued at \$36,000 in each year were donated.

The Organization's policy related to small boats and equipment is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow the Organization to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

All non-financial assets received by the Organization for the years ended June 30, 2022 and 2021 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

NOTE 14 – LEASES

SoundWaters has two lease agreements with the City of Stamford (the "City"). One, at Boccuzzi Park, has been discussed, above, in Note 2. The second lease, with the City, is for a building in Cove Island Park. The building is on the National Historic Register and the lease with the City 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, 2022 and 2021 was \$4,289 and \$4,377, respectively.

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

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. The May 2021 Tall Ships Ball event was postponed and ultimately canceled due to public health concerns due to the COVID-19 pandemic.

SOUNDWATERS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 16 – CONCENTRATIONS OF CREDIT RISK

During 2022, the Organization received approximately forty-four percent of its donations from two donors of which ninety-four 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, 2022 and 2021, the Organization's uninsured cash and equivalents balance totaled \$2,064,975 and \$4,555,562.

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 contributions to the plan were \$20,582 and \$20,480 during the years ended June 30, 2022 and 2021, 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, 2022. 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, 2022, \$24,000 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 an evolving situation. The extent of the impact of COVID-19 on the Organization's 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, the Organization is currently unable to fully determine the extent of COVID-19's impact on its business in future periods. The Organization's performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. The Organization continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.

NOTE 21 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 5, 2022, the date that the financial statements were available to be issued. The Harbor Center project was completed in November 2022, and the final \$1,000,000 installment of Steven & Alexandra Cohen Foundation pledge gift for the Center was received on October 4, 2022 and will be recognized as revenue in the upcoming fiscal year, as such the final installment has not been included in these financial statements.