

SOUNDWATERS, INC.
Independent Auditors' Report
Financial Statements
June 30, 2023 and 2022



ASSURANCE | ADVISORY | TAX | TECHNOLOGY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SoundWaters, Inc.

Opinion

We have audited the accompanying financial statements of SoundWaters, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 within 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 generally accepted auditing standards 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 generally accepted auditing standards, 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.

Auditors' Report on the 2022 Financial Statements

The 2022 financial statements of SoundWaters, Inc. were audited by predecessor auditors. Their report dated December 5, 2022, expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink that reads "Whittlesey PC". The signature is written in a cursive, flowing style.

Hartford, Connecticut
October 31, 2023

SOUNDWATERS, INC.

Statements of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,665,467	\$ 2,457,287
Investments	2,006,993	1,696,410
Accounts receivable	80,881	90,908
Receivable from City of Stamford	689,413	299,632
Contributions receivable, current portion	1,081,146	1,057,372
Prepaid expenses	64,324	71,931
Other assets	178,020	181,763
Total current assets	<u>6,766,244</u>	<u>5,855,303</u>
Other Assets		
Property and equipment, net	11,309,674	1,216,137
Construction in progress	2,995	7,217,565
Contributions receivable, net of current portion	812,135	1,670,787
Donated use of property, net	283,809	-
Total assets	<u>\$ 19,174,857</u>	<u>\$ 15,959,792</u>
Liabilities and net assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,258,243	\$ 597,561
Deferred revenue	398,855	371,843
Total current liabilities	<u>1,657,098</u>	<u>969,404</u>
Other Liabilities		
Deferred compensation	147,203	119,029
Total liabilities	<u>1,804,301</u>	<u>1,088,433</u>
Net assets		
Without donor restrictions	14,971,069	9,550,533
With donor restrictions	2,399,487	5,320,826
Total net assets	<u>17,370,556</u>	<u>14,871,359</u>
Total liabilities and net assets	<u>\$ 19,174,857</u>	<u>\$ 15,959,792</u>

The accompanying notes are an integral part of the financial statements.

SOUNDWATERS, INC.

Statements of Activities

For the years ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Contributions	\$ 423,569	\$ 2,964,615	\$ 3,388,184	\$ 1,311,497	\$ 2,894,089	\$ 4,205,586
Contributed non-financial assets	56,876	297,327	354,203	56,500	-	56,500
Special events revenue	368,828	122,712	491,540	373,039	73,994	447,033
Net direct benefit to donors	(122,174)	-	(122,174)	(83,200)	-	(83,200)
Education programs and other revenue	884,455	-	884,455	895,583	-	895,583
Government grants - operations	230,077	-	230,077	278,065	-	278,065
Forgiveness of Paycheck Protection Program loan	-	-	-	221,590	-	221,590
Other revenue	41,817	-	41,817	29,020	-	29,020
Investment return	110,641	53,724	164,365	(133,901)	(134,371)	(268,272)
Net assets released from restrictions	6,359,717	(6,359,717)	-	5,925,759	(5,925,759)	-
Total public support and revenue	8,353,806	(2,921,339)	5,432,467	8,873,952	(3,092,047)	5,781,905
Expenses						
Program services	2,289,562	-	2,289,562	1,646,060	-	1,646,060
Management and general	268,760	-	268,760	265,379	-	265,379
Fund development	374,948	-	374,948	446,568	-	446,568
Total functional expenses	2,933,270	-	2,933,270	2,358,007	-	2,358,007
Change in net assets	5,420,536	(2,921,339)	2,499,197	6,515,945	(3,092,047)	3,423,898
Net assets, beginning of year	9,550,533	5,320,826	14,871,359	3,034,588	8,412,873	11,447,461
Net assets, end of year	\$ 14,971,069	\$ 2,399,487	\$ 17,370,556	\$ 9,550,533	\$ 5,320,826	\$ 14,871,359

The accompanying notes are an integral part of the financial statements.

SOUNDWATERS, INC.

Statement of Functional Expenses

For the year ended June 30, 2023

	Program Services	Management and General	Fund Development	Totals
Salaries and related expenses	\$ 1,243,002	\$ 215,622	\$ 228,993	\$ 1,687,617
Supplies	164,862	2,123	20,041	187,026
Transportation	9,011	-	903	9,914
Food	31,883	1,686	67,546	101,115
Occupancy	134,840	315	52,661	187,816
Postage and freight	448	223	2,364	3,035
Printing and publications	12,111	388	6,393	18,892
Advertising and marketing	33,647	-	3,055	36,702
Professional fees	108,174	34,553	74,208	216,935
Meetings, dues and subscriptions	6,326	1,498	25,764	33,588
Maintenance	117,849	4,745	-	122,594
Telephone	17,672	338	-	18,010
Insurance	135,595	3,172	-	138,767
Merchant fees	21,377	-	4,131	25,508
Other expenses	9,910	-	8,003	17,913
Depreciation	242,855	7,511	3,060	253,426
Provision for bad debt	-	(3,414)	-	(3,414)
	<u>2,289,562</u>	<u>268,760</u>	<u>497,122</u>	<u>3,055,444</u>
Less: net direct benefit to donors recorded on statement of activities	-	-	(122,174)	(122,174)
Total functional expenses	<u>\$ 2,289,562</u>	<u>\$ 268,760</u>	<u>\$ 374,948</u>	<u>\$ 2,933,270</u>

The accompanying notes are an integral part of the financial statements.

SOUNDWATERS, INC.

Statement of Functional Expenses

For the year ended June 30, 2022

	Program Services	Management and General	Fund Development	Totals
Salaries and related expenses	\$ 1,028,888	\$ 189,217	\$ 193,331	\$ 1,411,436
Supplies	76,327	3,830	25,733	105,890
Transportation	12,956	472	23	13,451
Food	13,472	895	48,767	63,134
Occupancy	101,836	-	34,489	136,325
Postage and freight	407	402	2,919	3,728
Printing and publications	3,254	268	10,286	13,808
Advertising and marketing	13,620	-	13,763	27,383
Professional fees	84,291	55,086	192,768	332,145
Meetings, dues and subscriptions	9,673	591	1,219	11,483
Maintenance	61,697	2,296	(16,037)	47,956
Telephone	11,515	1,240	1,240	13,995
Insurance	93,950	3,496	3,497	100,943
Interest	-	1,430	-	1,430
Merchant fees	17,841	-	10,958	28,799
Other expenses	5,526	-	656	6,182
Depreciation	110,807	6,156	6,156	123,119
	<u>1,646,060</u>	<u>265,379</u>	<u>529,768</u>	<u>2,441,207</u>
Less: net direct benefit to donors recorded on statement of activities	<u>-</u>	<u>-</u>	<u>(83,200)</u>	<u>(83,200)</u>
Total functional expenses	<u>\$ 1,646,060</u>	<u>\$ 265,379</u>	<u>\$ 446,568</u>	<u>\$ 2,358,007</u>

The accompanying notes are an integral part of the financial statements.

SOUNDWATERS, INC.

Statements of Cash Flows

For the years ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 2,499,197	\$ 3,423,898
Adjustments to reconcile change in net assets to change in cash from operating activities:		
Depreciation	253,426	123,119
Realized and unrealized loss/(gain) on investments	(115,649)	304,063
Contributions with perpetual donor restrictions	(25,000)	(50,000)
Donated use of property	(283,809)	-
Forgiveness of debt - Paycheck Protection Program loan payable	-	(220,160)
(Increase)/decrease in operating assets:		
Accounts receivable	10,027	14,078
Receivable from City of Stamford	(389,781)	(299,632)
Contributions receivable	834,878	316,696
Prepaid expenses	7,607	(9,638)
Other assets	3,743	(131,517)
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	660,682	378,306
Deferred revenue	27,012	(144,488)
Deferred compensation	28,174	15,520
Change in cash from operating activities	<u>3,510,507</u>	<u>3,720,245</u>
Cash flows from investing activities		
Proceeds from the sale of investments	(129,465)	938,507
Purchases of investments	(65,469)	(903,007)
Payments for construction in progress	(3,087,647)	(6,351,133)
Purchases of property and equipment	(44,746)	(54,052)
Change in cash from investing activities	<u>(3,327,327)</u>	<u>(6,369,685)</u>
Cash flows from financing activities		
Permanently restricted contribution for investment	25,000	50,000
Change in cash from financing activities	<u>25,000</u>	<u>50,000</u>
Net change in cash and cash equivalents	208,180	(2,599,440)
Cash and cash equivalents, beginning of year	<u>2,457,287</u>	<u>5,056,727</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,665,467</u></u>	<u><u>\$ 2,457,287</u></u>

The accompanying notes are an integral part of the financial statements.

SOUNDWATERS, INC.

Notes to Financial Statements

June 30, 2023 and 2022

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. The Organization’s goal is a sustainable environment where people have a passion for the Long Island Sound, where 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. The Organization is committed to ensuring that no child or school will be excluded from our programs due to an inability to pay. Overall, over half of the students we teach are from low-income communities and receive full or partial scholarship assistance.

The Organization began in 1990 with the acquisition of the 80-foot, 3-masted Schooner SoundWaters, reaching several hundred students aboard ship in its first year. Over thirty years later, SoundWaters now reaches and teaches approximately 27,000 young people from over 110 schools in programs that range from climate science education research, water quality research, marine job training, small-boat sailing, mentoring, and advanced high school internships.

SoundWaters’ 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, 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. This year SoundWaters connected over 6,500 people to our 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles in the United States of America.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets - 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.

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 receivables are fully collectible. On a periodic basis, the Organization evaluates its accounts receivable and whether the balances are collectible.

Investments - Investments are recorded at fair value with unrealized gains and losses included in the statements of activities. The Organization reports investment income and gains and losses as increases or decreases in net assets without donor restrictions in the statements of activities unless a donor or law restricts their use.

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 following is a description of the valuation methodologies used for assets measured at fair value:

Equities and Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at the price. The funds held by the Organization are deemed to be actively traded.

There have been no changes in the methodologies used at June 30, 2023 and 2022. The fair values of all investments are determined using quoted prices for identical assets in active markets in which the Organization has access (Level 1).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment - Property and equipment are carried at cost or at fair values on donation date if contributed, less accumulated depreciation. Gifts of property and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used, in which case they 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 office 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.

Revenue Recognition

Contributions: Gifts of cash and other assets are reported 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 SoundWaters' 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.

Contributed non-financial assets: The Organization receives a substantial amount of volunteer services in carrying out its programs and activities. Volunteers perform various administrative, fiscal advisory 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: 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 \$230,077 and \$278,065 for the years ended June 30, 2023 and 2022, respectively, and are included as revenue in the statements of activities. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Education programs and other: 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 Financial Accounting Standards Board (“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 require a deposit or 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, 2023 and 2022.

Balances relating to contracts with customers are as follows:

	Contract Balances	
	Receivables	Liabilities
July 1, 2021	\$ 99,756	\$ 516,331
June 30, 2022	87,781	371,843
June 30, 2023	80,881	398,855

Functional Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. 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, as well as salaries and related expenses, which are based on time and effort within each functional area. Postage and freight, printing and publications, and merchant fees 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. Management 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.

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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertainty in Income Taxes - The Organization evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of June 30, 2023, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year.

Reclassifications - Certain amounts in the 2022 financial statements have been reclassified to conform to current year presentation.

Subsequent Events Measurement Date - The Organization monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the fiscal year ended June 30, 2023 through October 31, 2023, the date on which the financial statements were available to be issued.

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. SoundWaters has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

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.

As of June 30, the Organization's financial assets available to meet general expenditures over the next twelve months were as follows:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 2,665,467	\$ 2,457,287
Investments	2,006,993	1,696,410
Accounts receivable	80,881	90,908
Contributions receivable, current portion	1,081,146	1,057,372
Total financial assets	5,834,487	5,301,977
Less amounts not available to be used within one year:		
Spendable net assets with donor restrictions	-	(3,671,647)
Endowment funds - board designated	(1,053,421)	(951,027)
Endowment funds - donor restricted	(1,030,530)	(951,806)
	(2,083,951)	(5,574,480)
Financial assets available to meet general expenditures over the next twelve months	\$ 3,750,536	\$ (272,503)

NOTE 3 – LIQUIDITY AND AVAILABILITY (CONTINUED)

As part of the Organization's liquidity management plan, SoundWaters 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 a line of credit as well.

NOTE 4 – RECEIVABLE FROM CITY OF STAMFORD

As part of the construction of the Cohen SoundWaters Harbor Center (the "Harbor Center"), SoundWaters negotiated the First Amendment to Temporary Construction and Access Easement Agreement (the "Agreement") with the City of Stamford which among other things, acknowledged that the City was responsible for paying for utility installation under the October 10, 2019 Amended and Restated Lease and Assignment of Rights Agreement, and that it was more efficient for SoundWaters to perform this work on the City's behalf. This "Trench, Drainage and Site Work" (the "City Work") was specifically defined in the Agreement and priced to cost \$2,019,684. The Agreement also defined that "Cost Over-runs" in excess of the initial contract price would be shared 25% by SoundWaters and 75% by the City with any changes outside of the approved work needing the approval of both parties to the Agreement.

Under the terms of the Agreement, SoundWaters has recorded a \$689,413 receivable from the City for change orders to the Agreement. The City's Engineering Department has not reimbursed SoundWaters for a significant portion of the work, therefore the receivable is being discussed with the City's legal department. Additionally, there were also provisions in the Agreement indemnifying SoundWaters from any environmental remediation costs related to the property outside the lease area and easement provisions that required the City to deliver all necessary written easements within a maximum of thirty days of the signing of the Agreement. It is SoundWaters position that the City breached the Agreement when it unilaterally decided to change the remediation process, and when the City did not provide all easements within the required timeframe. Each of these breaches caused project delays and increased cost to SoundWaters. The remedy for this is also under discussion with the City's legal department.

Additionally, on October 17, 2023 Jones Lang LaSalle, Inc. ("JLL") the project manager for the City Work sent SoundWaters a notice of dispute seeking mediation before the American Arbitration Association over the \$168,525 JLL asserts SoundWaters owes them under the September 5, 2021 Project Management Agreement the parties entered into for the City Work. This obligation is recorded on the statement of financial position as a current liability and as a current asset as part of the Receivable from the City of Stamford.

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NOTE 5 – INVESTMENTS

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

	<u>2023</u>	<u>2022</u>
Equities	\$ 146,577	\$ 1,056,508
Mutual funds - fixed income	<u>1,860,416</u>	<u>639,902</u>
Total investments	<u>\$ 2,006,993</u>	<u>\$ 1,696,410</u>

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

	<u>2023</u>	<u>2022</u>
Interest and dividend income, net	\$ 48,716	\$ 35,791
Net realized and unrealized gains/(losses)	<u>115,649</u>	<u>(304,063)</u>
Total investment return	<u>\$ 164,365</u>	<u>\$ (268,272)</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable 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 between one and five years. Unconditional contributions receivable are expected to be collected as follows at June 30,:

	<u>2023</u>	<u>2022</u>
Receivable in less than one year	\$ 1,081,146	\$ 1,057,372
Receivable in one to five years	<u>871,199</u>	<u>1,930,519</u>
	1,952,345	2,987,891
Less: discounts to net present value	<u>(59,064)</u>	<u>(259,732)</u>
Net contributions receivable	<u>\$ 1,893,281</u>	<u>\$ 2,728,159</u>

Contributions receivable due in more than one year are discounted at 6% and 10%, respectively. No allowance has been established for bad debt as of June 30, 2023 and 2022.

NOTE 7 – PROPERTY AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Building - Harbor Center	\$ 9,960,542	\$ -
Leasehold improvements	2,236,633	2,139,236
Schooner <i>SoundWaters</i>	729,328	729,328
Small boats	332,658	290,972
Office equipment	373,139	137,314
Exhibits and displays	<u>425,553</u>	<u>425,553</u>
	14,057,853	3,722,403
Less: accumulated depreciation	<u>(2,748,179)</u>	<u>(2,506,266)</u>
Net property and equipment	<u><u>\$ 11,309,674</u></u>	<u><u>\$ 1,216,137</u></u>

NOTE 8 – DONATED FUTURE USE OF PROPERTY

SoundWaters is a party to two long-term lease agreements with the City of Stamford (the “City”). One lease is for use of a section of land in John J. Boccuzzi Park in Stamford upon which the Organization built the Harbor Center, placed in service in November 2022. This lease, also for \$1 per year, runs from October 2019 for 50 years, terminating in 2069. The Organization uses this building for its Young Mariners and high school education programs, marine trade job training programs and some administrative offices.

The second lease 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. SoundWaters renovated the building and will pay the City an annual minimum rent of \$1 for 30 years, until 2029, with a negotiated minimum rent for an additional 20 years thereafter. The Organization uses the building as the SoundWaters Coastal Education Center and most of its administrative offices.

Since the cost of the original renovations of the Cove Island building 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 appraised value of the land on which the Harbor Center was constructed is approximately \$28,000,000, therefore the City of Stamford donates the use of the land. Management has determined the present value of the balance of the donated future use of the property to be the following at June 30,:

	<u>2023</u>
Donated future use of property	\$ 887,674
Less: discount	<u>(603,865)</u>
Net donated future use of property	<u><u>\$ 283,809</u></u>

NOTE 8 – DONATED FUTURE USE OF PROPERTY (CONTINUED)

The amount was computed using a discount rate of 6% and is being amortized over the remaining life of the lease. Donated occupancy expense of \$13,518 and a contribution of \$297,326 was recognized for the year ended June 30, 2023.

NOTE 9 – LINES OF CREDIT

Line of Credit - SoundWaters maintains a \$375,000 line of credit with a bank at 9.25% at June 30, 2023 and 4.25% at June 30, 2022 (1% over the bank's prime lending rate). The line of credit is renewed annually and bears interest at 4.25% (1% over the bank's prime lending rate), which is payable monthly. There were no amounts outstanding on the line at June 30, 2023 and 2022.

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 (7.062% and 2.081% at June 30, 2023 and 2022, respectively), is payable monthly. There were no amounts outstanding on the note at June 30, 2023 and 2022.

NOTE 10 – NET ASSETS

Net assets with donor restrictions were as follows as of June 30,:

	2023	2022
Unappropriated endowment funds	\$ 221,913	\$ 168,189
Endowment assets held in perpetuity	808,617	783,617
Total endowment	<u>1,030,530</u>	<u>951,806</u>
Purpose and time restricted net assets		
Donated use of property	283,809	-
Capital Campaign - Harbor project	-	3,671,647
Scholarship	414,558	253,589
Education	465,590	434,784
Other	<u>205,000</u>	<u>9,000</u>
Total net assets with donor restrictions	<u>\$ 2,399,487</u>	<u>\$ 5,320,826</u>

Net assets were released from restrictions by incurring expenses satisfying the following purposes or due to the passage of time were as follows for the years ended June 30,:

	2023	2022
Scholarship	\$ 202,308	\$ 89,790
Education	324,194	244,516
Capital Campaign - Harbor Center	5,717,697	5,586,453
Donated use of property	13,518	-
Other	<u>102,000</u>	<u>5,000</u>
Total net assets released from restrictions	<u>\$ 6,359,717</u>	<u>\$ 5,925,759</u>

NOTE 10 – NET ASSETS (CONTINUED)

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.

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

The endowment is comprised of the following at June 30,:

	2023	2022
Cash	\$ 76,958	\$ 206,423
Investments	2,006,993	1,696,410
Total endowment	<u>\$ 2,083,951</u>	<u>\$ 1,902,833</u>

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

	Board Designated	With Donor Restrictions	Total
Endowment, July 1, 2021	\$ 1,092,733	\$ 1,036,178	\$ 2,128,911
Investment income, net	14,364	13,621	27,985
Realized and unrealized gains/(losses)	(156,070)	(147,993)	(304,063)
Additions	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Endowment, June 30, 2022	951,027	951,806	1,902,833
Investment income, net	21,927	13,542	35,469
Realized and unrealized gains/(losses)	75,467	40,182	115,649
Additions	<u>5,000</u>	<u>25,000</u>	<u>30,000</u>
Endowment, June 30, 2023	<u>\$ 1,053,421</u>	<u>\$ 1,030,530</u>	<u>\$ 2,083,951</u>

NOTE 10 – NET ASSETS (CONTINUED)

The Organization's endowment consists of \$808,617 and \$783,617 for the years ended, respectively, 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.

NOTE 11 – CONTRIBUTED NON-FINANCIAL ASSETS

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, June 30, 2023 and 2022, except for the future use of donated property, were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

NOTE 12 – 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 \$22,804 and \$20,582 during the years ended June 30, 2023 and 2022, respectively.

NOTE 13 – 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, 2023. 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, 2023, \$15,000 was accrued toward the plan. The contribution and related investment return are maintained in a separate account, as required by the plan.

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