SOUNDWATERS, INC.

Independent Auditors' Report

Financial Statements

June 30, 2026 and 2025

Whittlesey

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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, 2026 and 2025, and the related statements of activities, functional expenses, and cash flows for the years 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, 2026 and 2025, 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.

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.

Whittlesey PC

Hartford, Connecticut
October 15, 2026

SOUNDWATERS, INC.

Statements of Financial Position

June 30, 2026 and 2025

	2026	2025
Assets		
Current Assets		
Cash and cash equivalents	$ 5,016,944	$ 2,845,016
Investments	2,196,031	3,020,774
Accounts receivable	146,543	108,121
Contributions receivable, current portion	1,774,184	309,369
Prepaid expenses	83,464	59,079
Other assets	275,241	344,377
Total current assets	9,492,407	6,686,736
Other Assets		
Property and equipment, net	10,757,806	10,755,895
Construction in progress	2,382,939	-
Contributions receivable, net of current portion	3,653,931	56,422
Donated use of property, net	280,644	281,762
Total assets	$ 26,567,727	$ 17,780,815
Liabilities and net assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 691,796	$ 306,526
Deferred revenue	548,285	477,005
Total current liabilities	1,240,081	783,531
Other Liabilities		
Deferred compensation	255,760	308,108
Total liabilities	1,495,841	1,091,639
Net assets		
Without donor restrictions	23,094,319	14,691,564
With donor restrictions	1,977,567	1,997,612
Total net assets	25,071,886	16,689,176
Total liabilities and net assets	$ 26,567,727	$ 17,780,815

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

SOUNDWATERS, INC.

Statements of Activities

For the years ended June 30, 2026 and 2025

	2026			2025		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue						
Contributions	$ 10,177,173	$ 387,781	$ 10,564,954	$ 670,311	$ 449,123	$ 1,119,434
Contributed non-financial assets	60,906	-	60,906	60,970	-	60,970
Special events revenue	246,071	48,149	294,220	313,031	187,097	500,128
Net direct benefit to donors	(119,773)	-	(119,773)	(99,527)	-	(99,527)
Education programs and other revenue	985,136	-	985,136	940,176	-	940,176
Government grants - operations	524,583	-	524,583	367,504	-	367,504
Employee retention credit income	-	-	-	164,989	-	164,989
Other revenue	-	-	-	2,600	-	2,600
Investment return and interest income	330,146	117,317	447,463	308,261	78,328	386,589
Net assets released from restrictions	573,292	(573,292)	-	1,293,805	(1,293,805)	-
Total public support and revenue	12,777,534	(20,045)	12,757,489	4,022,120	(579,257)	3,442,863
Expenses						
Program services	3,306,556	-	3,306,556	3,210,681	-	3,210,681
Management and general	276,917	-	276,917	241,300	-	241,300
Fund development	791,306	-	791,306	517,971	-	517,971
Total expenses	4,374,779	-	4,374,779	3,969,952	-	3,969,952
Change in net assets	8,402,755	(20,045)	8,382,710	52,168	(579,257)	(527,089)
Net assets, beginning of year	14,691,564	1,997,612	16,689,176	14,639,396	2,576,869	17,216,265
Net assets, end of year	$ 23,094,319	$ 1,977,567	$ 25,071,886	$ 14,691,564	$ 1,997,612	$ 16,689,176

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

SOUNDWATERS, INC.

Statement of Functional Expenses

For the year ended June 30, 2026

	Program Services	Management and General	Fund Development	Totals
Salaries and related expenses	$ 1,812,000	$ 210,840	$ 325,678	$ 2,348,518
Supplies	188,328	1,094	24,652	214,074
Transportation	7,923	-	1,706	9,629
Food	34,136	778	67,901	102,815
Occupancy	142,322	-	48,870	191,192
Postage and freight	1,080	542	2,834	4,456
Printing and publications	9,812	522	9,969	20,303
Advertising and marketing	60,598	-	4,604	65,202
Professional fees	120,131	34,945	406,078	561,154
Meetings, dues and subscriptions	11,129	4,820	2,700	18,649
Maintenance	203,730	4,785	-	208,515
Telephone	13,390	160	-	13,550
Insurance	223,569	5,656	-	229,225
Merchant fees	26,184	396	6,687	33,267
Other expenses	11,962	-	9,400	21,362
Depreciation	400,262	12,379	-	412,641
Provision for bad debt	40,000	-	-	40,000
	3,306,556	276,917	911,079	4,494,552
Less: net direct benefit to donors recorded on statement of activities	-	-	(119,773)	(119,773)
Total expenses	$ 3,306,556	$ 276,917	$ 791,306	$ 4,374,779

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

SOUNDWATERS, INC.

Statement of Functional Expenses

For the year ended June 30, 2025

	Program Services	Management and General	Fund Development	Totals
Salaries and related expenses	$ 1,768,458	$ 175,621	$ 304,947	$ 2,249,026
Supplies	169,606	587	22,387	192,580
Transportation	8,541	-	1,362	9,903
Food	43,771	1,810	53,176	98,757
Occupancy	152,156	585	36,788	189,529
Postage and freight	1,492	483	6,850	8,825
Printing and publications	13,473	859	11,166	25,498
Advertising and marketing	57,324	-	7,935	65,259
Professional fees	146,194	33,126	150,804	330,124
Meetings, dues and subscriptions	9,177	5,180	5,339	19,696
Maintenance	206,499	6,050	-	212,549
Telephone	10,463	113	80	10,656
Insurance	191,016	4,626	-	195,642
Merchant fees	21,416	-	6,664	28,080
Other expenses	14,693	-	10,000	24,693
Depreciation	396,402	12,260	-	408,662
	3,210,681	241,300	617,498	4,069,479
Less: net direct benefit to donors recorded on statement of activities	-	-	(99,527)	(99,527)
Total expenses	$ 3,210,681	$ 241,300	$ 517,971	$ 3,969,952

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

SOUNDWATERS, INC.

Statements of Cash Flows

For the years ended June 30, 2026 and 2025

	2026	2025
Cash flows from operating activities		
Change in net assets	$ 8,382,710	$ (527,089)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	412,641	408,662
Realized and unrealized gain on investments	(273,954)	(207,051)
Donated use of property	1,118	1,054
(Increase)/decrease in operating assets:		
Accounts receivable	(38,422)	149,714
Receivable from City of Stamford	-	260,000
Contributions receivable	(5,062,324)	582,499
Prepaid expenses	(24,385)	(5,786)
Other assets	69,136	(60,252)
Increase/(decrease) in operating liabilities:		
Accounts payable and accrued expenses	385,270	(57,935)
Deferred revenue	71,280	4,575
Deferred compensation	(52,348)	54,672
Net change in cash from operating activities	3,870,722	603,063
Cash flows from investing activities		
Proceeds from the sale of investments	1,200,000	126,392
Purchases of investments	(101,303)	(497,736)
Purchases of property and equipment	(2,797,491)	(38,853)
Net change in cash from investing activities	(1,698,794)	(410,197)
Net change in cash and cash equivalents	2,171,928	192,866
Cash and cash equivalents, beginning of year	2,845,016	2,652,150
Cash and cash equivalents, end of year	$ 5,016,944	$ 2,845,016

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

NOTE 1 – THE ORGANIZATION

SoundWaters, Inc. ("SoundWaters" or the "Organization") is a not-for-profit organization whose mission is to create a better world through joyful learning on Long Island Sound. The Sound is our million-acre classroom, where SoundWaters teaches the science of the natural world to over 30,000 students a year. When students discover the Sound, they can embrace the world. Through teaching, training, sailing and research, SoundWaters works towards a sustainable environment where people have a passion for the 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. 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 young people from over 110 schools throughout the region in programs that range from climate science education research, water quality research, marine job training, small-boat sailing, mentoring, and advanced high school research 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 second 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 the 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.

Concentrations - The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Cash Equivalents - The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable - The Organization carries accounts 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.

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. Contributions receivable due in more than one year are discounted at 6%. No allowance has been established for bad debt as of June 30, 2026 and 2025.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

> *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, 2026 and 2025. 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).

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.

Depreciation is determined by use of the straight-line method over three years 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government grants: The Organization follows the *Not-for-Profit Revenue Recognition* topic of the Accounting Standards Codification. The Organization receives grant and contract funding from various state governments and corporations to provide a variety of program services to the public based on specific requirements included in the agreement, including reimbursement, staffing and other requirements. Such grants and contracts are nonreciprocal transactions and include conditions stipulated by the agencies and are, therefore, accounted for as conditional contributions. Public support is recognized as conditions are satisfied, primarily as expenses are incurred. Cash received on grants and contracts prior to incurring allowable expenses are recorded as a refundable advance upon receipt.

Education programs and other revenue: 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, 2026 and 2025.

Balances relating to contracts with customers are as follows:

	Contract Balances	
	Receivables	Liabilities
January 0, 1900	$ 257,835	$ 472,430
January 00, 1900	108,121	477,005
June 30, 2026	146,543	548,285

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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Subsequent Events Measurement Date - The Organization monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended June 30, 2026 through October 15, 2026, 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 from both unrestricted and restricted sources to cover general expenditures.

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

	2026	2025
Financial assets at year end:		
Cash and cash equivalents	$ 5,016,944	$ 2,845,016
Investments	2,196,031	3,020,774
Accounts receivable	146,543	108,121
Contributions receivable, current portion	1,774,184	309,369
Total financial assets	9,133,702	6,283,280
Less amounts not available to be used within twelve months:		
Endowment funds - board designated	(940,762)	(1,863,315)
Endowment funds - donor restricted	(1,312,789)	(1,236,094)
Capital campaign - board restricted	(1,710,300)	-
	(3,963,851)	(3,099,409)
Financial assets available to meet general expenditures over the next twelve months	$ 5,169,851	$ 3,183,871

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 – INVESTMENTS

Investments are maintained at major financial institutions and carried at fair value. Mutual funds consisted of $2,196,031 and $3,020,774 as of June 30, 2026 and 2025, respectively.

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

	2026	2025
Interest and dividend income, net	$ 141,059	$ 153,953
Net realized and unrealized gains	273,954	207,051
Total investment return	$ 415,013	$ 361,004

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable are expected to be collected as follows at June 30:

	2026	2025
Receivable in less than one year	$ 1,774,184	$ 309,369
Receivable in one to five years	3,953,900	73,121
	5,728,084	382,490
Less: discounts to net present value	(299,969)	(16,699)
Net contributions receivable	$ 5,428,115	$ 365,791

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2026	2025
Building - Harbor Center	$ 9,997,629	$ 9,997,629
Leasehold improvements	2,725,083	2,330,401
Schooner *SoundWaters*	748,929	735,859
Small boats	379,390	372,590
Office equipment	417,243	417,243
Exhibits and displays	425,553	425,553
	14,693,827	14,279,275
Less: accumulated depreciation	(3,936,021)	(3,523,380)
Net property and equipment	$ 10,757,806	$ 10,755,895

NOTE 7 – 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, 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 November 1998. 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.

Management has determined the present value of the balance of the donated future use of the John J. Boccuzzi Park property to be the following at June 30:

	2026	2025
Donated future use of property	$ 833,602	$ 851,626
Less: discount	(552,958)	(569,864)
Net donated future use of property	$ 280,644	$ 281,762

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 $18,024 was recognized for the years ended June 30, 2026 and 2025, respectively. A contribution of $16,906 and $16,970 was recognized for the years ended June 30, 2026 and 2025, respectively.

NOTE 8 – LINES OF CREDIT

Line of Credit - SoundWaters maintains a $375,000 line of credit with a bank at 8.0% at June 30, 2026 and 8.5% at June 30, 2025 (1% over the bank's prime lending rate). The line of credit is renewed annually and bears interest at 1% over the bank's prime lending rate, which is payable monthly. There were no amounts outstanding on the line at June 30, 2026 and 2025.

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 Secured Overnight Finance Rate (6.06% and 6.28% at June 30, 2026 and 2025, respectively), is payable monthly. There were no amounts outstanding on the note at June 30, 2026 and 2025.

NOTE 9 – NET ASSETS

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

	2026	2025
Unappropriated endowment funds	$ 404,172	$ 387,477
Endowment assets held in perpetuity	908,617	848,617
Total endowment	1,312,789	1,236,094
Purpose and time restricted net assets		
Donated use of property	280,644	281,762
Scholarship	351,604	384,226
Education	2,530	40,530
Other	30,000	55,000
Total net assets with donor restrictions	$ 1,977,567	$ 1,997,612

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:

	2026	2025
Scholarship	$ 99,615	$ 50,000
Education	430,653	1,087,319
Donated use of property	18,024	18,024
Other	25,000	138,462
Total net assets released from restrictions	$ 573,292	$ 1,293,805

Net assets with board restrictions were as follows as of June 30:

	2026	2025
Capital campaign	$ 3,640,097	$ -
Endowment	940,762	1,312,789
Total net assets with board restrictions	$ 4,580,859	$ 1,312,789

The Organization's Board has interpreted the State of Connecticut's Uniform Prudent Management of Institutional Funds Act ("CT UPMIFA") 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.

NOTE 9 – NET ASSETS *(CONTINUED)*

In accordance with the CT UPMIFA, 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:

	2026	2025
Cash	$ 57,520	$ 78,635
Investments	2,196,031	3,020,774
Total endowment	$ 2,253,551	$ 3,099,409

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

	Board Designated	With Donor Restrictions	Total
Endowment, July 1, 2024	$ 1,396,921	$ 1,142,766	$ 2,539,687
Investment income, net	53,970	23,491	77,461
Realized and unrealized gains	152,214	54,837	207,051
Additions	260,210	15,000	275,210
Endowment, June 30, 2025	1,863,315	1,236,094	3,099,409
Investment income, net	30,084	20,104	50,188
Realized and unrealized gains	176,741	97,213	273,954
Transfer	70,622	(70,622)	-
Withdrawals	(1,200,000)	-	(1,200,000)
Additions	-	30,000	30,000
Endowment, June 30, 2026	$ 940,762	$ 1,312,789	$ 2,253,551

The Organization's donor-restricted endowment consists of $908,617 and $848,477 as of June 30, 2026 and 2025, 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 10 – 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. 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. These non-financial assets were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

NOTE 11 – 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 $33,386 and $29,306 during the years ended June 30, 2026 and 2025, respectively.

NOTE 12 – DEFERRED COMPENSATION PLANS

Two deferred compensation plans were established in 2015 for the benefit of the President of the Organization. The first plan allows for an elective deferral by the employee. SoundWaters can but has not made a discretionary contribution to this plan. The balances in this plan are payable at time of employment termination.

The second plan is funded by SoundWaters and vests over a two-year period with distribution required immediately after. The next distribution will be in July 2027.

Contributions to the plans totaled $18,121 and $17,247 for the years ended June 30, 2026 and 2025, respectively, and plan assets totaling $255,760 and $308,108, respectively, are included on the statements of financial position along with a matching liability.

NOTE 13 – EMPLOYEE RETENTION CREDIT INCOME

Management determined that the Organization is eligible for the Employee Retention Credit ("ERC") under the Coronavirus Aid, Relief, and Economic Security Act of 2020, as modified by the Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021. During the year end June 30, 2025, SoundWaters, Inc. received tax credits as part of the ERC in the amount of $164,989, which was recorded as income on the accompanying statement of activities for the year ended June 30, 2025.

NOTE 14 – COMMITMENTS

Management entered into a contract with Director Shipyards on October 10, 2025, for a new research vessel priced at $5,810,836. SoundWaters paid $2,256,334 during the year ended June 30, 2026. The remaining balance on the new vessel is $3,554,502. The vessel will be paid in full by July 1, 2027 according to the contract.

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