

DOWNTOWN SAILING CENTER, INC.

FINANCIAL STATEMENTS

NOVEMBER 30, 2019 AND 2018



Certified Public Accountants

Table of Contents

Independent Auditor's Report

Financial Statements

Statements of Financial Position.....	4
Statements of Activities.....	5 - 6
Statements of Functional Expenses.....	7 - 8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10 - 15



Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Downtown Sailing Center, Inc.

We have audited the accompanying financial statements of **Downtown Sailing Center, Inc.** (a nonprofit organization), which comprise the statement of financial position as of November 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Downtown Sailing Center, Inc.** as of November 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
March 23, 2020

Downtown Sailing Center, Inc.

Statements of Financial Position November 30,

2019**2018****Assets****Current assets**

Cash and cash equivalents	\$ 44,699	\$ 54,368
Accounts receivable	910	-
Investments	3,000	-
Prepaid expenses	900	-
	<u>49,509</u>	<u>54,368</u>

Property and equipment, net accumulated depreciation

Total assets

481,462	500,635
<u>\$ 530,971</u>	<u>\$ 555,003</u>

Liabilities and net assets**Current liabilities**

Accounts payable and accrued expenses	\$ 9,351	\$ 19,476
Note payable, current portion	31,104	29,740
Total current liabilities	<u>40,455</u>	<u>49,216</u>

Long-term liabilities

Note payable	59,898	91,705
Deferred revenue	13,301	-
Deferred corporate membership	43,348	16,784
	<u>116,547</u>	<u>108,489</u>
Total liabilities	<u>157,002</u>	<u>157,705</u>

Net assets

Without donor restrictions	373,969	382,298
With donor restrictions	-	15,000
Total net assets	<u>373,969</u>	<u>397,298</u>
Total liabilities and net assets	<u>\$ 530,971</u>	<u>\$ 555,003</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Downtown Sailing Center, Inc.

Statement of Activities for the year ended November 30, 2019

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Grants and contributions	\$ 62,212	\$ 90,721	\$ 152,933
In kind contributions	29,122	-	29,122
Special event, net of \$5,062 of direct expenses	71,180	-	71,180
Net assets released from restrictions	105,721	(105,721)	-
	<u>268,235</u>	<u>(15,000)</u>	<u>253,235</u>
Earned revenues			
Membership dues	176,180	-	176,180
Tuition	168,385	-	168,385
Events	9,945	-	9,945
	<u>354,510</u>	<u>-</u>	<u>354,510</u>
Gain on sale of fixed assets	524	-	524
Investment income	148	-	148
Total public support and revenue	<u>623,417</u>	<u>(15,000)</u>	<u>608,417</u>
Expenses			
Program services			
Community outreach	131,778	-	131,778
Juniors camp and adult education	156,884	-	156,884
Membership activities	195,429	-	195,429
	<u>484,091</u>	<u>-</u>	<u>484,091</u>
Management and general	131,439	-	131,439
Fundraising	16,216	-	16,216
	<u>631,746</u>	<u>-</u>	<u>631,746</u>
Change in net assets	(8,329)	(15,000)	(23,329)
Net assets, beginning of year	382,298	15,000	397,298
Net assets, end of year	<u>\$ 373,969</u>	<u>\$ -</u>	<u>\$ 373,969</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Downtown Sailing Center, Inc.

Statement of Activities for the year ended November 30, 2018

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Grants and contributions	\$ 285,269	\$ 15,000	\$ 300,269
In kind contributions	500	-	500
Special event, net of \$5,053 of direct expenses	65,599	-	65,599
	<u>351,368</u>	<u>15,000</u>	<u>366,368</u>
Earned revenues			
Membership dues	203,051	-	203,051
Tuition	153,794	-	153,794
Events	10,193	-	10,193
	<u>367,038</u>	<u>-</u>	<u>367,038</u>
Interest income	9	-	9
Total public support and revenue	<u>718,415</u>	<u>15,000</u>	<u>733,415</u>
Expenses			
Program services			
Community outreach	161,865	-	161,865
Juniors camp and adult education	190,395	-	190,395
Membership	236,757	-	236,757
	<u>589,017</u>	<u>-</u>	<u>589,017</u>
Management and general	157,341	-	157,341
Fundraising	18,948	-	18,948
	<u>765,306</u>	<u>-</u>	<u>765,306</u>
Change in net assets	(46,891)	15,000	(31,891)
Net assets, beginning of year	429,189	-	429,189
Net assets, end of year	<u>\$ 382,298</u>	<u>\$ 15,000</u>	<u>\$ 397,298</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Downtown Sailing Center, Inc.

**Statement of Functional Expenses
for the year ended November 30, 2019**

	Community outreach	Juniors camp Adult education	Membership activities	Total program services	Management and general	Fundraising	Cost of direct benefit	Total
Expenses								
Advertising	\$ 212	\$ 252	\$ 312	\$ 776	\$ 202	\$ 30	\$ -	\$ 1,008
Bank fees	2,209	2,630	3,261	8,100	2,104	315	-	10,519
Boating supplies and expenses	69	82	176	327	-	-	-	327
Contract labor	2,061	2,454	3,043	7,558	2,258	-	-	9,816
Cost of direct benefit to donors	-	-	-	-	-	-	5,062	5,062
Depreciation	12,003	14,290	17,719	44,012	11,432	1,714	-	57,158
Docks and property	17	21	44	82	-	-	-	82
Dues and subscriptions	164	195	242	601	179	-	-	780
Employee benefits	4,439	5,285	6,553	16,277	4,228	635	-	21,140
Instructional certification costs	733	873	1,886	3,492	-	-	-	3,492
Insurance	6,931	8,252	10,232	25,415	6,601	990	-	33,006
Interest	-	-	-	-	4,227	-	-	4,227
Licenses and fees	283	337	417	1,037	309	-	-	1,346
Office supplies and equipment	64	77	95	236	61	10	-	307
Payroll processing fees	687	818	1,014	2,519	654	98	-	3,271
Payroll taxes	5,019	5,975	7,409	18,403	4,780	716	-	23,899
Postage	52	62	77	191	50	7	-	248
Printing	532	633	785	1,950	506	76	-	2,532
Professional fees	4,333	5,159	6,397	15,889	4,746	-	-	20,635
Program supplies	5,250	6,250	7,750	19,250	5,749	-	-	24,999
Rent - BMI	18,088	21,533	26,701	66,322	17,227	2,584	-	86,133
Repairs and maintenance	5,329	6,344	7,867	19,540	5,836	-	-	25,376
Salaries	59,013	70,254	87,115	216,382	56,203	8,430	-	281,015
Telecommunications	2,046	2,436	3,021	7,503	1,949	292	-	9,744
Training and conferences	658	783	971	2,412	627	94	-	3,133
Travel	235	280	347	862	224	32	-	1,118
Utilities	644	767	951	2,362	614	92	-	3,068
Web fees	707	842	1,044	2,593	673	101	-	3,367
Total expenses by function	<u>\$ 131,778</u>	<u>\$ 156,884</u>	<u>\$ 195,429</u>	<u>\$ 484,091</u>	<u>\$ 131,439</u>	<u>\$ 16,216</u>	<u>\$ 5,062</u>	<u>\$ 636,808</u>
Less expenses included with revenues on the statement of activities								
Cost of direct benefit to donors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,062)	\$ (5,062)
Total expenses included in the expense section on the statement of activities	<u>\$ 131,778</u>	<u>\$ 156,884</u>	<u>\$ 195,429</u>	<u>\$ 484,091</u>	<u>\$ 131,439</u>	<u>\$ 16,216</u>	<u>\$ -</u>	<u>\$ 631,746</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Downtown Sailing Center, Inc.

**Statement of Functional Expenses
for the year ended November 30, 2018**

	Community outreach	Juniors camp Adult education	Membership activities	Total program services	Management and general	Fundraising	Cost of direct benefit	Total
Expenses								
Advertising	\$ 361	\$ 430	\$ 533	\$ 1,324	\$ 344	\$ 52	\$ -	\$ 1,720
Bank fees	2,015	2,399	2,975	7,389	1,919	288	-	9,596
Boating supplies and expenses	540	1,233	797	2,570	-	-	-	2,570
Contract labor	3,199	3,808	4,722	11,729	3,503	-	-	15,232
Cost of direct benefit to donors	-	-	-	-	-	-	5,053	5,053
Depreciation	11,914	14,183	17,587	43,684	11,345	1,702	-	56,731
Docks and property	2,375	1,350	1,673	5,398	-	-	-	5,398
Dues and subscriptions	113	135	167	415	125	-	-	540
Employee benefits	5,296	6,305	7,818	19,419	5,044	757	-	25,220
Instructional certification costs	275	156	193	624	-	-	-	624
Insurance	10,005	11,911	14,769	36,685	9,529	1,429	-	47,643
Interest	-	-	-	-	6,100	-	-	6,100
Licenses and fees	362	431	534	1,327	395	-	-	1,722
Meals	10	12	15	37	12	-	-	49
Office supplies and equipment	132	157	194	483	125	19	-	627
Payroll processing fees	849	1,011	1,253	3,113	809	121	-	4,043
Payroll taxes	6,025	7,173	8,895	22,093	5,738	861	-	28,692
Postage	46	55	68	169	44	7	-	220
Printing	786	936	1,161	2,883	749	112	-	3,744
Professional fees	4,162	4,955	6,144	15,261	4,557	-	-	19,818
Program supplies	9,832	11,704	15,918	37,454	9,363	-	-	46,817
Rent - BMI	18,057	21,497	26,656	66,210	17,198	2,580	-	85,988
Repairs and maintenance	8,373	8,723	10,816	27,912	6,978	-	-	34,890
Salaries	73,922	88,002	109,122	271,046	70,402	10,560	-	352,008
Telecommunications	1,284	1,529	1,895	4,708	1,223	183	-	6,114
Training and conferences	32	38	47	117	30	5	-	152
Travel	369	439	544	1,352	351	53	-	1,756
Utilities	860	1,024	1,270	3,154	819	123	-	4,096
Web fees	671	799	991	2,461	639	96	-	3,196
Total expenses by function	<u>\$ 161,865</u>	<u>\$ 190,395</u>	<u>\$ 236,757</u>	<u>\$ 589,017</u>	<u>\$ 157,341</u>	<u>\$ 18,948</u>	<u>\$ 5,053</u>	<u>\$ 770,359</u>
Less expenses included with revenues on the statement of activities								
Cost of direct benefit to donors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,053)	\$ (5,053)
Total expenses included in the expense section on the statement of activities	<u>\$ 161,865</u>	<u>\$ 190,395</u>	<u>\$ 236,757</u>	<u>\$ 589,017</u>	<u>\$ 157,341</u>	<u>\$ 18,948</u>	<u>\$ -</u>	<u>\$ 765,306</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Downtown Saling Center, Inc.

Statement of Cash Flows

for the years ended November 30,

2019

2018

	2019	2018
Cash flows from operating activities		
Decrease in net assets	\$ (23,329)	\$ (31,891)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	57,158	56,731
Gain on sale of fixed assets	(524)	-
Donated property	(25,643)	-
Donated stock	(3,000)	-
Increase in operating assets		
Accounts receivable	(910)	-
Prepaid expenses	(900)	20,854
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(10,125)	(8,755)
Deferred revenue	13,301	-
Deferred corporate membership	26,564	16,784
Net cash provided by operating activities	<u>32,592</u>	<u>53,723</u>
Cash flows from investing activities		
Proceeds from sale of equipment	6,000	-
Purchase of property, plant, and equipment	(17,818)	(38,613)
Net cash used in investing activities	<u>(11,818)</u>	<u>(38,613)</u>
Cash flows from financing activities		
Payment on note payable	(30,443)	(28,569)
Net cash used in financing activities	<u>(30,443)</u>	<u>(28,569)</u>
Net change in cash and cash equivalents	(9,669)	(13,459)
Cash and cash equivalents - beginning of year	54,368	67,827
Cash and cash equivalents - end of year	<u>\$ 44,699</u>	<u>\$ 54,368</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 4,227	\$ 6,100
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2019 and 2018

1. Organization and purpose

Downtown Sailing Center, Inc. (the Center) is a nonprofit, volunteer oriented sailing organization that provides boating, water safety education, and training to the community. The Downtown Sailing Center provides quality educational and life enriching programs that promote self-esteem and teamwork through the joy of sailing. The Downtown Sailing Center is committed to promoting an environment of inclusiveness especially accessibility, especially to youth, persons with disabilities, and those with limited opportunities. Downtown Sailing Center, Inc. is supported through individual contributions, grants, membership, and class tuition.

2. Summary of significant accounting policies

Basis of accounting

The financial statements of the Center are prepared using the accrual method of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred. All revenue and expenses that are applicable to future periods, have been presented as deferred revenue or prepaid expenses on the accompanying statements of financial position.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation

The Center is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets without donor restrictions are available for use in general operations. Net assets with donor restrictions generally result from assets donated with restrictions that are temporary in nature, such as those met by the passage of time or other events specified by the donor.

Cash and cash equivalents

For purposes of the statements of cash flows, the Center considers all cash and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. It is the Center's policy not to classify certificates of deposit or cash held in investment accounts as cash and cash equivalents. FDIC insurance is \$250,000 per depositor, per insured bank. At year-end and throughout the year, the Center's cash balances were deposited in a single bank which may exceed federally insured limits. The Center has not experienced any losses on its cash and cash equivalents and management does not believe this result in any significant credit risk.

Property and equipment

Property and equipment additions exceeding \$500 are recorded at cost if purchased or, if donated, at fair market value at the date of the gift. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, generally five to fifteen years.

Investments

Investments are reported at fair market value, which is based on publicly available market data obtained from services independent of the Society. Investment income or loss (including realized and unrealized gains and losses, interest, and dividends) is netted with investment expenses and included in the statements of activities as increases or decreases in net assets without donor restrictions.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2019 and 2018

Grants and contributions

Grants and contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Center reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods or specific purpose. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net asset with donor restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions support.

Program revenue includes tuition for classes and camps. When program revenue is received before the class or camp, it is reported as deferred revenue.

In kind donations

A substantial number of volunteers donate time to the Center's program services. The donated services are an integral part of the Center's purpose but are not reflected in the financial statements because the services do not require specialized skills as defined by U.S. generally accepted accounting principles. Donated property is reflected as a revenue or asset at the fair market value of the property on date of donation.

The Center regularly receives donated boats. The Center capitalizes donated boats at fair market value at the date of donation. Fair market value is determined based on market sales of similar boats. In the case where larger and more valuable boats are donated to the Center, the Center obtains a professional survey to assist in valuing such boats.

Functional expenses

Expenses are charged to programs, management and general, or fundraising based on a combination of specific identification and allocation by management. The financial statements report certain categories of expenses that attributed to more than one function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and related expenses, office related expenses, utilities and rent related expenses which are allocated on the basis of estimates of time and effort.

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, grants and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and accrued expenses. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

Income taxes

The Center is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation. For the years ended November 30, 2019 and 2018, the Center did not have any unrelated business income subject to income taxes.

Management does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Center's results of operations. Tax years that remain subject to examination by the IRS are 2016 through 2019.

Compensated absences

Employees of the Center are entitled to paid vacation, depending on job classification, length of service, and other factors. The Center's policy is to recognize the costs of compensated absences when actually paid to employees.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2019 and 2018

New accounting pronouncements

The FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Center adopted the standard on its effective date, which was December 1, 2019.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2020. The Center plans to adopt the standard on its effective date, which for the Center is December 1, 2021. The Center has not evaluated the impact of this statement.

3. Property and equipment

Property and equipment for the year ended November 30, 2019 consisted of the following:

	<u>2019</u>	<u>2018</u>	<u>Useful life</u>
Docks	\$ 818,079	\$ 818,079	10 - 20 years
Sailboats	304,126	304,483	7 years
Sailboat equipment	88,960	72,087	7 years
Hoists, engines and sails	28,721	28,721	5 - 7 years
Powerboats and canoes	30,100	24,100	7 years
Vehicle	1,598	1,598	3 years
Office equipment	945	-	5 years
	<u>1,272,529</u>	<u>1,249,068</u>	
Less: accumulated depreciation	<u>(791,067)</u>	<u>(748,433)</u>	
	<u>\$ 481,462</u>	<u>\$ 500,635</u>	

As a means of solidifying the Center's mission for future years, the Center's Board of Directors voted to pursue renovation of the marina. Pursuant to that goal, effective in 2016, the Center and the City of Baltimore entered into a wharfage license agreement and purchase and sale agreement. The purchase and sale agreement provides for the Center to acquire a portion of the inner harbor marina dock and gangway system for a nominal charge. The wharfage license agreement allows the Center to use the submerged land totaling approximately slightly less than one acre for maintaining its dock system for use with its mission. This wharfage license agreement was for a six-month term and automatically renews for additional six month periods until terminated in accordance the terms of the license agreement.

In 2016, the Center renovated its docks and funded the renovations primarily through a note payable and contributions. See Note 4 for additional information about the note payable.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2019 and 2018

4. Note payable

Effective August 2015, Downtown Sailing Center, Inc. secured a term loan totaling \$203,257 from a bank. The purpose of the loan is to finance the costs related to the construction of docks at 1407 Key Highway. The term loan provides a fixed maturity date of September 1, 2022, and monthly principal and interest payments of \$2,889 through maturity. The note payable bears interest at 4.49 percent. The balance on the note payable was \$91,002 as of November 30, 2019. Interest payments on the loan were capitalized until the dock was completed and entered into service on December 1, 2016. After the dock was placed in service, interest payments were expensed. For the years ended November 30, 2019 and 2018 interest payments were \$4,227 and \$6,100, respectively, and are reported as interest expense on the statement of functional expenses.

Future minimum scheduled principal payments for the years ending November 30 are as follows:

2020	\$	31,195
2021		32,625
2022		27,885
Total	\$	<u>91,705</u>

5. Lease commitments

In December 2004 the Center and Baltimore Museum of Industry (BMI) concurrently executed a corporate membership agreement, operating agreement and a ground lease. The terms of these agreements are reported below.

Annual membership agreement and supplemental membership payments

The corporate membership agreement provides the Center's membership with membership to the Baltimore Museum of Industry, Inc. (BMI). The agreement is retroactively effective September 1, 2004 and terminates on August 31, 2103. The annual membership fee is payable on May 1st of each year, commencing May 1, 2005. The annual membership fee is \$25,000 and is subject to annual adjustment based on the published consumer price index (CPI).

The \$25,000 fee is based on a membership level of 700 members per year. An excess membership payment of \$25.00 per member in excess of 700 members was subject to assessment during the period September 1, 2004 through August 31, 2009. A 25% reduction of the excess membership payment applies to excess membership fees thereafter. This agreement may be terminated by the Center giving BMI six months notice before September 1st of any year in the term of the corporate membership agreement.

The Center is also required to make an annual supplemental membership payment for use of BMI buildings and grounds by the Center's staff and members. The base payment in 2004 was \$10,000 and every five years the amount increases by \$5,000. Starting in 2004, the supplemental membership payments are made annually for the first twenty years of the contract and starting in 2033, payments of \$100,000 are made every ten years.

The Center recognizes corporate membership expense using the straight line method of amortization over the life of the corporate membership agreement in the amount of \$7,135 per month. As a result, differences between the recognition of expense and timing of payments will give rise to amounts deferred or prepaid on the statements of financial position. In 2017, the amortization of the agreement resulted in a prepaid expense and in 2018, the agreement resulted in a liability. Corporate membership fees classified as "Rent - BMI" in the statement of functional expenses for the years ended November 30, 2019 and 2018 totaled \$86,133 and \$85,988.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2019 and 2018

Future minimum payments under the corporate membership agreement are as follows:

	Annual membership fee	Supplemental membership payment	Total
2020	\$ 35,455	\$ 25,000	\$ 60,455
2021	36,057	25,000	61,057
2022	36,670	25,000	61,670
2023	37,294	25,000	62,294
2024	37,928	-	37,928
Thereafter	6,181,159	700,000	6,881,159
	<u>\$ 6,364,563</u>	<u>\$ 800,000</u>	<u>\$ 7,164,563</u>

Ground Lease

The ground lease governs the use of BMI's waterfront property, including bulkheads, piers, wharfs, etc. The term of the ground lease is September 1, 2004 through August 31, 2103. The ground lease requires that the Center maintain specified insurance coverage against various types of losses and liabilities. The annual lease payment is \$1.00.

Photocopier Lease

The Center leases a multifunctional printer/photocopier with a lease term of 63 months and a monthly payment of \$165. Future minimum payments under this operating lease are as follows:

2020	\$ 1,980
2021	1,320
	<u>\$ 3,300</u>

6. Liquidity and availability

The Center strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. The following table reflects the Center's financial assets as of November 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position because of donor or contractual restrictions.

	2019	2018
Cash and cash equivalents	\$ 44,699	\$ 54,368
Accounts receivable	910	-
Operating investments	3,000	-
	<u>48,609</u>	<u>54,368</u>
Less amounts with donor restrictions	-	(15,000)
	<u>\$ 48,609</u>	<u>\$ 39,368</u>

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2019 and 2018

7. Net asset with donor restrictions

Net assets with donor restrictions were available for the following purposes at November 30, 2019 and 2018:

	<u>2018</u>	<u>Additions</u>	<u>Releases</u>	<u>2019</u>
Restricted to specific purposes:				
After school sailing programs	\$ -	\$ 90,721	\$ (90,721)	\$ -
Science, Technology, Engineering and Math (STEM)	15,000	-	(15,000)	-
	<u>\$ 15,000</u>	<u>\$ 90,721</u>	<u>\$ (105,721)</u>	<u>\$ -</u>
	<u>2017</u>	<u>Additions</u>	<u>Releases</u>	<u>2018</u>
Restricted to specific purposes:				
Science, Technology, Engineering and Math (STEM)	\$ -	\$ 15,000	\$ -	\$ 15,000

8. Fair value measurements

The Center classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

A summary of investments measured at fair value on a recurring basis by input basis as of November 30, 2019 is as follows:

	<u>Level 1 and total</u>
Common stock	<u>\$ 3,000</u>

9. Subsequent events

Downtown Sailing Center, Inc. assessed events occurring subsequent to November 30, 2019 through March 23, 2020 for potential recognition and disclosure in the financial statements. The COVID-19 outbreak in the United States (and worldwide) has caused business disruption through mandated and voluntary closings. As of March 23, 2020, the Downtown Sailing Center was closed. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closing. The Center has sufficient cash and investments as of the date of this financial statement to cover all current liabilities, including the note payable. The Center expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time. No other events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor's report.