

DOWNTOWN SAILING CENTER, INC.

FINANCIAL STATEMENTS

NOVEMBER 30, 2022 AND 2021



Certified Public Accountants



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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Downtown Sailing Center, Inc.

Opinion

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, 2022, 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 **Downtown Sailing Center, Inc.** as of November 30, 2022, 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 audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Downtown Sailing Center, Inc.** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The 2021 financial statements were reviewed by us, and our report thereon, dated August 24, 2022, stated we were not aware of any material modifications that should be made to those financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

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 **Downtown Sailing Center, Inc.**'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors
Downtown Sailing Center, Inc.

Auditor's 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 auditor's 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 **Downtown Sailing Center, 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 **Downtown Sailing Center, Inc.**'s ability to continue as a going concern for a reasonable period of time.

Kositzka, Wicks and Company

Alexandria, Virginia
July 31, 2023

Downtown Sailing Center, Inc.

Statements of Financial Position November 30,

(Audited)
2022

(Reviewed)
2021

Assets

Current assets

Cash and cash equivalents	\$ 457,348	\$ 193,485
Investments	3,221	3,490
Accounts receivable	5,000	-
Prepaid expenses	2,702	2,205
	<u>468,271</u>	<u>199,180</u>

Property and equipment, net accumulated depreciation

Total assets	<u>\$ 964,360</u>	<u>\$ 677,701</u>
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Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 19,196	\$ 19,517
Deferred corporate membership	118,563	94,101
Deferred revenue	-	2,195
Note payable, current portion	-	27,248
Economic Injury Disaster Loan (EIDL), current portion	26,136	4,356
Total current liabilities	<u>163,895</u>	<u>147,417</u>

Long-term liabilities

Economic Injury Disaster Loan (EIDL), net	<u>486,899</u>	<u>153,522</u>
Total liabilities	<u>650,794</u>	<u>300,939</u>

Net assets

Without donor restrictions	<u>313,566</u>	<u>376,762</u>
Total net assets	<u>313,566</u>	<u>376,762</u>
Total liabilities and net assets	<u>\$ 964,360</u>	<u>\$ 677,701</u>

The accompanying notes and independent accountant's review report.

Downtown Sailing Center, Inc.

Statement of Activities for the year ended November 30, 2022 (Audited)

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Grants and contributions	\$ 62,996	\$ 27,500	\$ 90,496
Special event, net of \$7,915 of direct expenses	114,639	-	114,639
In-kind donation	36,000	-	36,000
Net assets released from restrictions	27,500	(27,500)	-
	<u>241,135</u>	<u>-</u>	<u>241,135</u>
Earned revenues			
Membership dues	253,953	-	253,953
Tuition	207,910	-	207,910
Events	12,960	-	12,960
	<u>474,823</u>	<u>-</u>	<u>474,823</u>
Investment loss, net	(70)	-	(70)
Total public support and revenue	<u>715,888</u>	<u>-</u>	<u>715,888</u>
Expenses			
Program services			
Community outreach	154,402	-	154,402
Juniors camp and adult education	188,994	-	188,994
Membership activities	228,926	-	228,926
	<u>572,322</u>	<u>-</u>	<u>572,322</u>
Management and general	164,910	-	164,910
Fundraising	41,852	-	41,852
	<u>779,084</u>	<u>-</u>	<u>779,084</u>
Change in net assets	(63,196)	-	(63,196)
Net assets, beginning of year	376,762	-	376,762
Net assets, end of year	<u>\$ 313,566</u>	<u>\$ -</u>	<u>\$ 313,566</u>

The accompanying notes and independent accountant's review report.

Downtown Sailing Center, Inc.

Statement of Activities for the year ended November 30, 2021 (Reviewed)

	Without donor restrictions	With donor restrictions	Total
Public support and revenue			
Contributions			
Grants and contributions	\$ 143,791	\$ 20,000	\$ 163,791
Special event, net of \$5,000 of direct expenses	158,302	-	158,302
Net assets released from restrictions	20,000	(20,000)	-
	<u>322,093</u>	<u>-</u>	<u>322,093</u>
Earned revenues			
Membership dues	223,991	-	223,991
Tuition	197,137	-	197,137
Events	575	-	575
	<u>421,703</u>	<u>-</u>	<u>421,703</u>
Investment income, net	177	-	177
Total public support and revenue	<u>743,973</u>	<u>-</u>	<u>743,973</u>
Expenses			
Program services			
Community outreach	136,418	-	136,418
Juniors camp and adult education	167,714	-	167,714
Membership activities	202,754	-	202,754
	<u>506,886</u>	<u>-</u>	<u>506,886</u>
Management and general	171,750	-	171,750
Fundraising	63,850	-	63,850
	<u>742,486</u>	<u>-</u>	<u>742,486</u>
Change in net assets	1,487	-	1,487
Net assets, beginning of year	375,275	-	375,275
Net assets, end of year	<u>\$ 376,762</u>	<u>\$ -</u>	<u>\$ 376,762</u>

The accompanying notes and independent accountant's review report.

Downtown Sailing Center, Inc.

**Statement of Functional Expenses
for the year ended November 30, 2022 (Audited)**

	Community outreach	Juniors camp Adult education	Membership activities	Total program services	Management and general	Fundraising	Cost of direct benefit	Total
Expenses								
Advertising	\$ 172	\$ 211	\$ 255	\$ 638	\$ 216	\$ 80	\$ -	\$ 934
Bank fees	2,165	2,662	3,218	8,045	2,726	1,013	-	11,784
Boating supplies and expenses	26	32	38	96	-	-	-	96
Contract labor	1,318	1,611	1,952	4,881	1,469	-	-	6,350
Cost of direct benefit to donors	-	-	-	-	-	-	7,915	7,915
Depreciation	6,884	8,464	10,232	25,580	8,667	3,222	-	37,469
Dues and subscriptions	129	158	191	478	162	60	-	700
Employee benefits	7,770	9,496	11,510	28,776	6,705	1,968	-	37,449
Instructional certification costs	486	594	720	1,800	-	-	-	1,800
Insurance	7,778	9,562	11,560	28,900	9,792	3,640	-	42,332
Interest	-	-	-	-	11,420	-	-	11,420
Licenses and fees	125	153	186	464	140	-	-	604
Office supplies and equipment	70	86	104	260	88	33	-	381
Payroll processing fees	676	832	1,005	2,513	852	317	-	3,682
Payroll taxes	6,773	8,278	10,034	25,085	5,844	1,715	-	32,644
Printing and postage	637	783	946	2,366	802	298	-	3,466
Professional fees	5,696	6,962	8,438	21,096	6,349	-	-	27,445
Program supplies	7,431	9,083	11,009	27,523	8,283	-	-	35,806
Rent - BMI	15,825	19,456	23,521	58,802	19,924	7,407	-	86,133
Repairs and maintenance	6,844	8,365	10,139	25,348	7,628	-	-	32,976
Salaries	79,292	96,912	117,469	293,673	68,423	20,084	-	382,180
Telecommunications	1,648	2,026	2,449	6,123	2,075	771	-	8,969
Training and conferences	1,003	1,234	1,491	3,728	1,263	470	-	5,461
Utilities	821	1,009	1,220	3,050	1,033	384	-	4,467
Web fees	833	1,025	1,239	3,097	1,049	390	-	4,536
Total expenses by function	<u>\$ 154,402</u>	<u>\$ 188,994</u>	<u>\$ 228,926</u>	<u>\$ 572,322</u>	<u>\$ 164,910</u>	<u>\$ 41,852</u>	<u>\$ 7,915</u>	<u>\$ 786,999</u>
Less expenses included with revenues on the statement of activities								
Cost of direct benefit to donors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,915)	\$ (7,915)
Total expenses included in the expense section on the statement of activities	<u>\$ 154,402</u>	<u>\$ 188,994</u>	<u>\$ 228,926</u>	<u>\$ 572,322</u>	<u>\$ 164,910</u>	<u>\$ 41,852</u>	<u>\$ -</u>	<u>\$ 779,084</u>

The accompanying notes and independent accountant's review report.

Downtown Sailing Center, Inc.

**Statement of Functional Expenses
for the year ended November 30, 2021 (Reviewed)**

	Community outreach	Juniors camp Adult education	Membership activities	Total program services	Management and general	Fundraising	Cost of direct benefit	Total
Expenses								
Advertising	\$ 946	\$ 1,183	\$ 1,419	\$ 3,548	\$ 1,597	\$ 769	\$ -	\$ 5,914
Bank fees	1,449	1,812	2,174	5,435	2,446	1,178	-	9,059
Boating supplies and expenses	50	61	74	185	-	-	-	185
Contract labor	1,969	2,407	2,917	7,293	2,698	-	-	9,991
Cost of direct benefit to donors	-	-	-	-	-	-	5,000	5,000
Depreciation	9,840	12,300	14,760	36,900	16,605	7,995	-	61,500
Employee benefits	5,321	6,504	7,884	19,709	8,906	4,128	-	32,743
Instructional certification costs	1,048	1,280	1,552	3,880	-	-	-	3,880
Insurance	5,727	7,159	8,590	21,476	9,664	4,653	-	35,793
Interest	-	-	-	-	7,902	-	-	7,902
Licenses and fees	898	1,098	1,331	3,327	1,231	-	-	4,558
Meals	30	37	45	112	50	24	-	186
Office supplies and equipment	318	398	477	1,193	537	259	-	1,989
Payroll processing fees	572	714	857	2,143	964	464	-	3,571
Payroll taxes	5,190	6,344	7,689	19,223	8,686	4,027	-	31,936
Printing and postage	417	521	625	1,563	703	339	-	2,605
Professional fees	4,115	5,029	6,096	15,240	5,636	-	-	20,876
Program supplies	6,999	8,554	10,369	25,922	9,588	-	-	35,510
Rent - BMI	13,781	17,227	20,672	51,680	23,256	11,197	-	86,133
Repairs and maintenance	6,762	8,265	10,018	25,045	9,263	-	-	34,308
Salaries	68,823	84,117	101,960	254,900	58,367	27,059	-	340,326
Telecommunications	1,539	1,924	2,309	5,772	2,598	1,251	-	9,621
Utilities	624	780	936	2,340	1,053	507	-	3,900
Total expenses by function	<u>\$ 136,418</u>	<u>\$ 167,714</u>	<u>\$ 202,754</u>	<u>\$ 506,886</u>	<u>\$ 171,750</u>	<u>\$ 63,850</u>	<u>\$ 5,000</u>	<u>\$ 747,486</u>
Less expenses included with revenues on the statement of activities								
Cost of direct benefit to donors	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,000)</u>	<u>\$ (5,000)</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 136,418</u>	<u>\$ 167,714</u>	<u>\$ 202,754</u>	<u>\$ 506,886</u>	<u>\$ 171,750</u>	<u>\$ 63,850</u>	<u>\$ -</u>	<u>\$ 742,486</u>

The accompanying notes and independent accountant's review report.

Downtown Sailing Center, Inc.

Statements of Cash Flows for the years ended November 30,	(Audited) 2022	(Reviewed) 2021
Cash flows from operating activities		
Change in net assets	\$ (63,196)	\$ 1,487
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	37,469	61,500
Unrealized gain on investments	269	-
Donated property and equipment	(36,000)	-
Forgiveness of SBA Paycheck Protection Program loan	-	(70,021)
Increase in operating assets		
Accounts receivable	(5,000)	-
Prepaid expenses	(497)	(276)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(321)	10,136
Accrued interest	5,157	5,802
Deferred corporate membership	24,462	25,076
Deferred revenue	(2,195)	(33,557)
Net cash provided by (used in) operating activities	<u>(39,852)</u>	<u>147</u>
Cash flows from investing activities		
Purchase of property, plant, and equipment	(19,037)	(29,046)
Reinvestments of stock	-	(50)
Net cash used in investing activities	<u>(19,037)</u>	<u>(29,096)</u>
Cash flows from financing activities		
Proceeds from Economic Injury Disaster Loan	350,000	-
Payment on note payable	(27,248)	(32,570)
Net cash provided by (used in) financing activities	<u>322,752</u>	<u>(32,570)</u>
Net change in cash and cash equivalents	263,863	(61,519)
Cash and cash equivalents - beginning of year	193,485	255,004
Cash and cash equivalents - end of year	<u>\$ 457,348</u>	<u>\$ 193,485</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 4,272	\$ 2,100
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes and independent accountant's review report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

1. Organization and purpose

Downtown Sailing Center, Inc. (the Center) is a nonprofit, volunteer oriented educational 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 accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of restrictions imposed by donors or grantors. Accordingly, net assets and changes therein are classified and reported in two categories as described below.

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

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 November 30, 2022, the Center's cash balances exceeded the FDIC limit by \$206,070. 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. Cash balances were covered by the FDIC on November 30, 2021.

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.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

Investments

Investments are reported at fair market value, which is based on publicly available market data obtained from services independent of the Center. 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.

Support and revenue recognition

The Center receives membership dues and provides services for a fee, both which are accounted for as exchange transactions. Resources received in exchange transactions are measured at their fair values and are reported as an increase in net assets without donor restrictions. Contracts with customers were evaluated using the practical expedient of a portfolio approach because each contract is with an individual person or company. Each type of contract has similar characteristics and corresponds to a revenue stream that is carried out on a consistent basis. Sources of revenue from contracts with customers include membership dues and tuition for sailing classes.

Performance obligations satisfied over time include membership dues. The revenue is recognized ratably over a 12-month period because the services included in the membership are available for the member's use on a continuous basis. Payment is due when the membership is initially purchased or renewed. The allocation of remaining performance obligations is based on the number of months remaining in the membership at year-end. Contract liabilities are recorded for the component of membership dues which are recognized over the 12-month term and are referred to as deferred revenue on the statement of financial position.

The Center recognizes revenue from tuition at a point in time, the time of admission. Courses vary in length and cost. Tuition paid in advance of the course is considered deferred revenue.

The Center recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

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. Six boats, with fair market value of approximately \$6,000 each, were donated to the Center in September 2022. The boats were recorded as in-kind donation for a total of \$36,000 in fiscal year 2022.

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.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

Fair value of financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and cash equivalents, accounts receivable, and prepaid expenses. Financial liabilities with carrying values approximating fair value include accounts payable, accrued expenses, deferred corporate memberships and deferred revenue. 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, 2022 and 2021, 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 2019 through 2022.

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.

Recently adopted accounting pronouncements

The Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement activities and provide additional disclosures about contributions of nonfinancial assets. Contributed nonfinancial assets, commonly referred to as gifts-in-kind, include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The Center adopted the standard on its effective date, December 1, 2021, and used a retrospective approach.

Upcoming accounting pronouncements

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, 2021. The Center plans to adopt the standard on its effective date, which is December 1, 2022. The Center has not evaluated the impact of this statement.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

3. Property and equipment

Property and equipment for the years ended November 30 consisted of the following:

	<u>2022</u>	<u>2021</u>	<u>Useful life</u>
Docks	\$ 839,644	\$ 824,608	10 - 20 years
Sailboats	392,604	352,690	7 years
Sailboat equipment	104,417	101,835	7 years
Hoists, engines and sails	36,676	36,676	5 - 7 years
Powerboats and canoes	26,600	26,600	7 years
Office equipment	4,651	-	7 years
Vehicle	4,078	4,078	3 years
Construction in process	-	7,146	n/a
	<u>1,408,670</u>	<u>1,353,633</u>	
Less: accumulated depreciation	<u>(912,581)</u>	<u>(875,112)</u>	
	<u>\$ 496,089</u>	<u>\$ 478,521</u>	

Construction in process does not depreciate until put into service. Depreciation expense for the years ended November 30, 2022 and 2021 was \$37,469 and \$61,500, respectively.

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.

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. 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, 2022 and 2021 interest payments were \$1,907 and \$2,100, respectively, and are included with interest expense on the statement of functional expenses. The loan balance on the note payable was paid off as of November 30, 2022.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

5. Membership agreement and 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 percent 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. Corporate membership fees classified as "Rent - BMI" are \$86,133 each year and included on the statement of functional expenses for the years ended November 30, 2022 and 2021.

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

	Annual membership fee	Supplemental membership payment	Total
2023	\$ 37,294	\$ 25,000	\$ 62,294
2024	37,928	-	37,928
2025	38,573	-	38,573
2026	39,228	-	39,228
2027	39,895	-	39,895
Thereafter	6,102,691	700,000	6,802,691
	<u>\$ 6,295,609</u>	<u>\$ 725,000</u>	<u>\$ 7,020,609</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.

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Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

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, 2022 and 2021, 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.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 457,348	\$ 193,485
Operating investments	3,221	3,490
Accounts receivable	5,000	-
	<u>\$ 460,569</u>	<u>\$ 196,975</u>

7. Net asset with donor restrictions

Net assets with donor restrictions were available for the following purposes at November 30, 2022 and 2021:

	<u>2020</u>	<u>Additions</u>	<u>Releases</u>	<u>2021</u>
Restricted to specific purposes:				
After school sailing programs	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ (20,000)</u>	<u>\$ -</u>

	<u>2019</u>	<u>Additions</u>	<u>Releases</u>	<u>2020</u>
Restricted to specific purposes:				
After school sailing programs	<u>\$ -</u>	<u>\$ 20,750</u>	<u>\$ (20,750)</u>	<u>\$ -</u>

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 is as follows:

	<u>2022</u>	<u>2021</u>
	<u>Level 1</u>	<u>Level 1</u>
	<u>and total</u>	<u>and total</u>
Common stock	<u>\$ 3,221</u>	<u>\$ 3,490</u>

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the years ended November 30, 2022 (Audited) and 2021 (Reviewed)

9. COVID-19 related loans

SBA Paycheck Protection Program loan

Under the “Coronavirus Aid, Relief, and Economic Security (CARES) Act,” funds were appropriated for the SBA Paycheck Protection Program (PPP) loans that are forgivable in certain situations to promote continued employment. The Center obtained a PPP loan in April 2020 in the amount of \$70,021. The Center received full forgiveness and the forgiven loan is included with grants and contributions for the year ended November 30, 2021.

Economic Injury Disaster Loan

In July 2020, the Center received an Economic Injury Disaster Loan (EIDL) funds totaling \$150,000. In March 2022, the Center applied for and received additional \$350,000 EIDL funds. Repayment began in October 2022 with monthly payments of \$2,178 at an annual interest rate of 2.75 percent. Payments on the EIDL are applied to interest first, then to principal. As interest began accruing in July 2020. Accrued interest of \$13,035 and \$7,878 was included with the loan balance and was reported on the statements of financial position for the years ended November 30, 2022 and 2021.

Future minimum payments for the years ending November 30 are the following:

2023	\$	12,184
2024		12,482
2025		13,226
2026		13,594
2027		13,939
Thereafter		447,610
	\$	<u>513,035</u>

10. Deferred revenue

The following table provides information about significant changes in the contract liabilities for the years ended November 30:

	<u>2022</u>	<u>2021</u>
Deferred revenue, beginning of year	\$ 2,195	\$ 13,301
Revenue recognized that was included in deferred tuition at beginning of year	(2,195)	(13,301)
Increase in deferred tuition due to cash received during the period	-	2,195
Deferred revenue, end of year	<u>\$ -</u>	<u>\$ 2,195</u>

See Note 5 for details on the deferred corporate membership.

11. Subsequent events

Downtown Sailing Center, Inc. assessed events occurring subsequent to November 30, 2022 through July 31, 2023 for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.

See independent auditor's report.