

DOWNTOWN SAILING CENTER, INC.

FINANCIAL STATEMENTS

NOVEMBER 30, 2017



Certified Public Accountants

Table of Contents

Independent Auditor's Report

Financial Statements

Statement of Financial Position.....	1
Statement of Activities.....	2
Statement of Functional Expenses.....	3
Statement of Cash Flows.....	4
Notes to Financial Statements.....	5 - 11



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, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2017, 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.

Kositzka, Wicks and Company

Alexandria, Virginia
October 11, 2018

Downtown Sailing Center, Inc.

Statements of Financial Position November 30, 2017

Assets

Current assets

Cash and cash equivalents	\$	67,827
Prepaid expenses		20,854
		<u>88,681</u>

Property and equipment, net accumulated depreciation		<u>518,753</u>
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Total assets	\$	<u>607,434</u>
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Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$	28,231
Note payable, current portion		28,521
Total current liabilities		<u>56,752</u>

Note payable		<u>121,493</u>
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Total liabilities		<u>178,245</u>
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Net assets

Unrestricted		<u>429,189</u>
Total net assets		<u>429,189</u>

Total liabilities and net assets	\$	<u>607,434</u>
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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, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Public support and revenue			
Contributions			
Grants and contributions	\$ 38,023	\$ 164,605	\$ 202,628
In kind contributions	13,448	-	13,448
Special event, net of direct expenses	52,478	-	52,478
Net assets released from restrictions	198,576	(198,576)	-
	<u>302,525</u>	<u>(33,971)</u>	<u>268,554</u>
Earned revenues			
Membership dues	192,365	-	192,365
Tuition	159,862	-	159,862
Events	12,930	-	12,930
	<u>365,157</u>	<u>-</u>	<u>365,157</u>
Interest income	9	-	9
Total public support and revenue	<u>667,691</u>	<u>(33,971)</u>	<u>633,720</u>
Expenses			
Program services			
Community outreach	161,411	-	161,411
Juniors camp and adult education	191,553	-	191,553
Membership	231,055	-	231,055
	<u>584,019</u>	<u>-</u>	<u>584,019</u>
Management and general	151,365	-	151,365
Fundraising	12,367	-	12,367
	<u>747,751</u>	<u>-</u>	<u>747,751</u>
Change in net assets	(80,060)	(33,971)	(114,031)
Net assets, beginning of year	509,249	33,971	543,220
Net assets, end of year	<u>\$ 429,189</u>	<u>\$ -</u>	<u>\$ 429,189</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, 2017

	Community outreach	Juniors camp & Adult education	Membership	Total programs	Management & general	Fundraising	Total
Advertising	\$ 863	\$ 1,027	\$ 1,274	\$ 3,164	\$ 822	\$ 123	\$ 4,109
Bank fees	1,793	2,135	2,647	6,575	1,708	256	8,539
Boating supplies and expenses	22	26	57	105	-	-	105
Contract labor	4,000	4,045	-	8,045	-	-	8,045
Depreciation	17,534	19,866	24,079	61,479	1,212	650	63,341
Docks and property	1,697	2,074	2,513	6,284	-	-	6,284
Dues and subscriptions	207	253	306	766	192	-	958
Employee benefits	3,184	3,892	4,717	11,793	2,948	-	14,741
Instructional certification costs	799	976	1,184	2,959	-	-	2,959
Insurance	8,876	10,848	13,149	32,873	8,370	606	41,849
Interest	-	-	-	-	7,409	-	7,409
Licenses and fees	354	432	524	1,310	328	-	1,638
Meals	19	23	29	71	18	-	89
Office supplies and equipment	150	183	223	556	139	-	695
Payroll processing fees	861	1,052	1,275	3,188	797	-	3,985
Payroll taxes	5,981	7,120	8,829	21,930	5,696	855	28,481
Postage	38	46	56	140	35	-	175
Printing	664	791	981	2,436	633	95	3,164
Professional fees	2,665	3,257	3,949	9,871	11,718	-	21,589
Program supplies	8,897	10,874	13,180	32,951	8,238	-	41,189
Rent - BMI	16,482	19,621	24,330	60,433	15,697	2,354	78,484
Repairs and maintenance	8,282	10,103	12,247	30,632	7,658	-	38,290
Salaries	72,306	86,078	106,737	265,121	72,282	6,910	344,313
Storage	2,100	2,500	3,400	8,000	2,000	-	10,000
Telecommunications	1,755	2,090	2,591	6,436	1,672	250	8,358
Training and conferences	139	166	206	511	133	20	664
Travel	315	375	465	1,155	301	45	1,501
Utilities	834	993	1,231	3,058	794	119	3,971
Web fees	594	707	876	2,177	565	84	2,826
Total expenses	<u>\$ 161,411</u>	<u>\$ 191,553</u>	<u>\$ 231,055</u>	<u>\$ 584,019</u>	<u>\$ 151,365</u>	<u>\$ 12,367</u>	<u>\$ 747,751</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 year ended November 30, 2017

Cash flows from operating activities

Decrease in net assets	\$ (114,031)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	63,341
Decrease in operating assets	
Accounts receivable	1,127
Prepaid expenses	30,846
Decrease in operating liabilities	
Accounts payable and accrued expenses	10,874
Deferred revenue	(5,027)
Net cash used in operating activities	<u>(12,870)</u>

Cash flows from investing activities

Purchase of property and equipment	<u>(31,228)</u>
Net cash used in investing activities	<u>(31,228)</u>

Cash flows from financing activities

Payments made on note payable	<u>(27,261)</u>
Net cash used in investing activities	<u>(27,261)</u>

Net change in cash and cash equivalents	(71,359)
Cash and cash equivalents - beginning of year	139,186
Cash and cash equivalents - end of year	<u>\$ 67,827</u>

Supplemental disclosures of cash flow information

Cash paid for interest	<u>\$ 7,409</u>
Income taxes paid	<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, 2017

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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At November 30, 2017, the Center had no permanently restricted net assets.

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.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2017

2. Summary of significant accounting policies (continued)

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.

Grants and contributions

Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence and/or nature of any donor restrictions. Donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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. For the year ended November 30, 2017, the Center received \$10,000 in donated storage space and \$3,448 in donated event t-shirts.

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.

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.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2017

2. Summary of significant accounting policies (continued)

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 year ended November 30, 2017, 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 2014 through 2017.

Compensated absences

Employees of the Center are entitled to paid vacation, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Center's policy is to recognize the costs of compensated absences when actually paid to employees.

Recent and upcoming accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents Phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information in liquidity, retains the option to present the cash flow statement on a direct or indirect method, and includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for Downtown Sailing Center, Inc. for the fiscal year ending November 30, 2019. Downtown Sailing Center, Inc. has not evaluated the impact of this statement.

The FASB has issued Accounting Standards Update (ASU) 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Center plans to adopt the standard on its effective date, which for the Center is December 1, 2019. The Center has not evaluated the impact of this statement.

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, 2019. The Center plans to adopt the standard on its effective date, which for the Center is December 1, 2020. 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 year ended November 30, 2017

3. Property and equipment

Property and equipment for the year ended November 30, 2017 consisted of the following:

	<u>2017</u>	<u>Useful life</u>
Docks	\$ 781,829	10 - 20 years
Sailboats	304,483	7 years
Sailboat equipment	70,822	7 years
Hoists, engines and sails	28,721	5 - 7 years
Powerboats and canoes	24,100	7 years
Vehicle	500	3 years
	<u>1,210,455</u>	
Less: accumulated depreciation	<u>(691,702)</u>	
	<u>\$ 518,753</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, 2017

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 \$150,014 as of November 30, 2017. 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 year ended November 30, 2017 interest payments were \$7,409 and are reported as interest expense on the statement of functional expenses.

Future minimum scheduled principal payments as of November 30, 2017 are as follows:

Years ending December 31,

2018	\$	28,521
2019		29,828
2020		31,195
2021		32,625
2022		27,845
Total	\$	<u>150,014</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 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.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2017

7. Commitments (continued)

Annual membership agreement and supplemental membership payments (continued)

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" in the statement of functional expenses for the year ended November 30, 2017 totaled \$78,484. Future minimum payments under the corporate membership agreement are as follows:

For the years ending November 30,

	Annual membership fee	Supplemental membership payment	Total
	<u> </u>	<u> </u>	<u> </u>
2018	\$ 34,045	\$ 20,000	\$ 54,045
2019	34,624	25,000	59,624
2020	35,212	25,000	60,212
2021	35,811	25,000	60,811
Thereafter	6,250,063	750,000	7,000,063
	<u>\$ 6,389,755</u>	<u>\$ 845,000</u>	<u>\$ 7,234,755</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.

Storage Lease

Effective December 2015, the Center leased a new storage space, consisting of use of a single story structure warehouse, located at 1401 Woodall Street in Baltimore. The lease continues on a month to month basis until terminated by either party and the rent is donated to the Center at an estimated \$10,000 per year. Donated storage rent is reported on the statement of activities as income and reported as storage rental expense on the statement of functional expenses.

See independent auditor's report.

Downtown Sailing Center, Inc.

Notes to Financial Statements for the year ended November 30, 2017

7. Commitments (continued)

Photocopier Lease

Effective May 2016, the Center leased a multifunctional printer/photocopier with a lease term of 63 months and a monthly payment of \$165. Future minimum payments under this operating lease for the year ended November 30, 2016 are as follows:

For the years ending November 30,

2018	\$	1,980
2019		1,980
2020		1,980
2021		1,320
	\$	<u>9,240</u>

6. Temporarily restricted net assets

Temporarily restricted net assets were used for the following purposes during the year ended November 30, 2017:

	<u>2016</u>	<u>Additions</u>	<u>Releases</u>	<u>2017</u>
Restricted to specific purposes:				
Sailing Instructor Training Program	\$ 23,539	\$ 47,390	\$ (70,929)	\$ -
Board purchase	10,432	-	(10,432)	-
Science, Technology, Engineering and Math (STEM)	-	45,000	(45,000)	-
Family League	-	60,000	(60,000)	-
	<u>\$ 33,971</u>	<u>\$ 152,390</u>	<u>\$ (186,361)</u>	<u>\$ -</u>

7. Subsequent events

Downtown Sailing Center, Inc. assessed events occurring subsequent to November 30, 2017 through October 11, 2018 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.