

**NANTUCKET COMMUNITY
SAILING, INC.**

FINANCIAL STATEMENTS

October 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nantucket Community Sailing, Inc.
Nantucket, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Nantucket Community Sailing, Inc. (the Organization), which comprise the statements of financial position as of October 31, 2018 and 2017, and the related statements of activities and changes in net assets 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.

Auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of October 31, 2018 and 2017, 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.

Other matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Rachel Frechette,
McCrory, Michael & Co.*

Providence, Rhode Island
January 12, 2019

NANTUCKET COMMUNITY SAILING, INC.

STATEMENTS OF FINANCIAL POSITION
October 31, 2018 and 2017

ASSETS	2018	2017
Cash and cash equivalents	\$ 747,635	\$ 526,163
Accounts receivable	28,849	19,966
Investments	107,658	108,934
Unconditional promises to give, net	246,855	8,000
Prepaid expenses	325	1,625
Property and equipment, net	2,849,377	3,130,222
Land held for sale	640,000	-
	<u>\$ 4,620,699</u>	<u>\$ 3,794,910</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 136,185	\$ 35,713
Note payable	840,516	842,388
Total liabilities	<u>976,701</u>	<u>878,101</u>
 NET ASSETS		
Unrestricted	2,637,965	2,858,694
Temporarily restricted	1,006,033	58,115
Total net assets	<u>3,643,998</u>	<u>2,916,809</u>
	<u>\$ 4,620,699</u>	<u>\$ 3,794,910</u>

See Notes to Financial Statements

NANTUCKET COMMUNITY SAILING, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended October 31, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Program revenue	\$ 420,790	\$ -	\$ 420,790
Less: financial aid and scholarships	90,949	-	90,949
Net program revenue	329,841	-	329,841
Contributions	661,974	950,088	1,612,062
In-kind contributions	268,149	-	268,149
Membership fees	99,697	-	99,697
Sale of books, net of direct cost	785	-	785
Rental revenue	70,312	-	70,312
Special event revenue	310,686	-	310,686
Investment income	5,525	-	5,525
Net assets released from restrictions	2,170	(2,170)	-
Total revenue and other support	1,749,139	947,918	2,697,057
EXPENSES			
Program	1,054,870	-	1,054,870
General and administrative	338,260	-	338,260
Special events	540,427	-	540,427
Fundraising	36,311	-	36,311
Total expenses	1,969,868	-	1,969,868
CHANGE IN NET ASSETS	(220,729)	947,918	727,189
NET ASSETS, beginning of the year	2,858,694	58,115	2,916,809
NET ASSETS, end of the year	\$ 2,637,965	\$ 1,006,033	\$ 3,643,998

See Notes to Financial Statements

NANTUCKET COMMUNITY SAILING, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended October 31, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Program revenue	\$ 411,016	\$ -	\$ 411,016
Less: financial aid and scholarships	81,573	-	81,573
Net program revenue	<u>329,443</u>	-	<u>329,443</u>
Contributions	770,346	-	770,346
In-kind contributions	479,790	-	479,790
Membership fees	101,328	-	101,328
Sale of books, net of direct cost	1,775	-	1,775
Rental revenue	111,639	-	111,639
Special event revenue	331,183	-	331,183
Investment income	16,749	-	16,749
Gain on disposal of property and equipment	380	-	380
Net assets released from restrictions	66,882	(66,882)	-
Total revenue and other support	<u>2,209,515</u>	<u>(66,882)</u>	<u>2,142,633</u>
EXPENSES			
Program	985,480	-	985,480
General and administrative	226,858	-	226,858
Special events	561,544	-	561,544
Fundraising	32,359	-	32,359
Total expenses	<u>1,806,241</u>	-	<u>1,806,241</u>
CHANGE IN NET ASSETS	403,274	(66,882)	336,392
NET ASSETS, beginning of the year	2,455,420	124,997	2,580,417
NET ASSETS, end of the year	<u>\$ 2,858,694</u>	<u>\$ 58,115</u>	<u>\$ 2,916,809</u>

See Notes to Financial Statements

NANTUCKET COMMUNITY SAILING, INC.

STATEMENTS OF CASH FLOWS
Years Ended October 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 727,189	\$ 336,392
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated property and equipment	(97,670)	(288,384)
Depreciation	118,081	118,894
Impairment loss on assets held for sale	81,731	-
Unrealized loss (gain) on investments	1,276	(11,327)
Gain on disposal of property and equipment	-	(380)
Contributions restricted for long-term investment	(708,722)	(100,000)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(8,883)	(1,303)
Unconditional promises to give	(238,855)	37,000
Prepaid expenses	1,300	3,243
Increase (decrease) in:		
Accounts payable and accrued expenses	20,890	(24,982)
Net cash (used in) provided by operating activities	(103,663)	69,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit on property purchase	-	116,500
Purchase of property and equipment	(381,715)	(536,174)
Proceeds from sale of property and equipment	-	1,200
Net cash used in investing activities	(381,715)	(418,474)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-term investment	708,722	100,000
Repayments on note payable	(1,872)	(1,612)
Net cash provided by financing activities	706,850	98,388
Net increase (decrease) in cash and cash equivalents	221,472	(250,933)
CASH AND CASH EQUIVALENTS		
Beginning	526,163	777,096
Ending	\$ 747,635	\$ 526,163

See Notes to Financial Statements

NANTUCKET COMMUNITY SAILING, INC.

STATEMENTS OF CASH FLOWS
Years Ended October 31, 2018 and 2017

	2018	2017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest, net of capitalized interest	\$ 15,662	\$ -
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Property and equipment acquired and included in accounts payable and accrued expenses	\$ 79,582	\$ -
Transfer of land held for sale from property and equipment	\$ 721,734	\$ -
Property acquired with note payable	\$ -	\$ 844,000

See Notes to Financial Statements

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization: Nantucket Community Sailing, Inc. (the Organization) is a not-for-profit corporation chartered under the laws of the State of Massachusetts. The Organization was established for the purpose of providing affordable sailing instruction and access to water sports for the community of Nantucket. The Organization conducts educational programs on sailing and marine safety. The programs for the Organization are funded primarily from contributions, program revenue, special events and membership fees.

Basis of presentation: The Organization's financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). In accordance with GAAP, as a not-for-profit entity, the Organization classifies its activities and net assets into three classes of net assets as follows: unrestricted, temporarily restricted and permanently restricted.

As a result of the accounting standard described above, the Organization has classified its net assets as follows:

- *Unrestricted net assets* - consist of unrestricted amounts that are available for use in carrying out the mission of the Organization as they carry no donor-imposed time or purpose restrictions. Specifically, these include amounts available for the Organization's operations and net investment in property and equipment.
- *Temporarily restricted net assets* - consist of those amounts which are restricted for a specific purpose. When a restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Organization had no permanently restricted net assets as of October 31, 2018 or 2017.

Cash and cash equivalents: Cash includes all monies contained in checking and money market accounts. For the purpose of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value. The bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Cash in bank deposits, at times, may exceed this FDIC limit. The Organization believes it is not exposed to any significant credit risk in cash. At October 31, 2018, the Organization had cash balances on deposit with banks that exceeded FDIC limits by approximately \$398,000. This entire amount is held in bank deposit accounts covered by the Depositor Insurance Fund, a private, industry-sponsored insurance company for Massachusetts chartered savings banks, which insures deposit balances above the FDIC insurance amount.

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable: The Organization carries its accounts receivable at net realizable value. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past bad debt expense and collections and current credit conditions.

The Organization does not accrue interest on accounts receivable. A receivable is considered past due if payment has not been received within stated terms. The Organization will then exhaust all methods in-house to collect the receivable. Once all practical resources to collect the receivable have been utilized without success, the receivable is deemed uncollectible and charged to bad debt expense.

Unconditional promises to give: Unconditional promises to give are recorded at fair value when received, and are recorded as revenue when the donor's written commitment is received. Unconditional pledges of more than one year are recorded after discounting to the present value of expected future cash flows, net of an allowance for unfulfilled pledges.

Investments: Investments are carried at fair value. Fair value is determined as per the fair value standards in accordance with GAAP. Dividends, interest and net gains (losses) on investments are reported as increases in unrestricted net assets. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Investment income includes the Organization's gains and losses on investments bought and sold as well as held during the year.

Property and equipment: Property and equipment are recorded at cost. The Organization capitalizes any such purchases over \$5,000. Depreciation is calculated on the straight-line method over the expected useful lives of the assets as follows:

	<u>Years</u>
Leasehold improvements	10-39
Boats and equipment	3-10
Furniture and fixtures	3-10
Automobiles	5

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the asset is placed in service, at which time the Organization reclassifies temporarily restricted net assets to unrestricted net assets.

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS

October 31, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions: Contributions are defined as voluntary nonreciprocal transfers.

Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. 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. Temporarily restricted contributions that are received and expended within the same period are reported as unrestricted support.

Contributions received whose use is contingent upon the occurrence of a future event are deferred until the condition is substantially met, at which time they are recognized as support.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the years in which the promises are received.

Amortization of the discount is included in contribution revenue. Conditional promises to give are not recognized as support until the conditions are substantially met.

The Organization recognizes donated services at their estimated fair market value if they create or enhance non-financial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition in the financial statements.

Allocation of expenses: Certain costs of the Organization benefit more than one program and/or support service. Accordingly, these costs have been allocated in a systematic and rational manner among the programs benefitted.

Income taxes: The Organization is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code.

The Organization recognizes and measures its unrecognized tax benefits in accordance with GAAP. Under that guidance the Organization assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting pronouncements to be adopted:

Revenue recognition

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements, including industry specific guidance, when it becomes effective. The underlying principle of the update is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new guidance is effective for years beginning after December 15, 2018. Management continues to evaluate the potential impact of this update on the financial statements and related disclosures.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases*. This update requires all leases with a term greater than 12 months to be recognized on the statement of financial position through a right-of-use asset and a lease liability. This ASU is effective for years beginning after December 15, 2019 and early adoption is permitted. Management continues to evaluate the potential impact of this update on the financial statements and related disclosures.

Financial statement presentation

In August 2016, FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU aims to improve presentation of financial information, ultimately making nonprofit financial reporting statements more informative, transparent and useful to readers. Key qualitative and quantitative requirements covered in the final ASU include:

- Net asset classes
- Investment return
- Expenses
- Liquidity and availability for resources
- Presentation of operating cash flows

The ASU is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. Management continues to evaluate the potential impact of this update on the financial statements and related disclosures.

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017

Note 1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Note 2. UNCONDITIONAL PROMISES TO GIVE

The following is a summary of unconditional promises to give as of October 31, 2018 and 2017:

	2018	2017
Unconditional promises to give due in:		
Less than one year	\$ 143,331	\$ 10,000
One to five years	105,524	-
Unconditional promises to give, gross	248,855	10,000
Allowance for uncollectible pledges	(2,000)	(2,000)
Unconditional promises to give, net	<u>\$ 246,855</u>	<u>\$ 8,000</u>

Note 3. FAIR VALUE MEASUREMENTS

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017

Note 3. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Exchange traded fund: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. While the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value as of October 31, 2018 and 2017:

	October 31, 2018			Total	Cost Basis
	Level 1	Level 2	Level 3		
Exchange Traded Security	\$ 107,658	\$ -	\$ -	\$ 107,658	\$ 99,548
Total Investments	\$ 107,658	\$ -	\$ -	\$ 107,658	\$ 99,548

	October 31, 2017			Total	Cost Basis
	Level 1	Level 2	Level 3		
Exchange Traded Security	\$ 108,934	\$ -	\$ -	\$ 108,934	\$ 99,548
Total Investments	\$ 108,934	\$ -	\$ -	\$ 108,934	\$ 99,548

NANTUCKET COMMUNITY SAILING, INC.

**NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017**

Note 4. INVESTMENT EARNINGS

The following table summarizes investment income for the years ended October 31, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 6,800	\$ 5,423
Unrealized (loss) gain	(1,275)	11,326
	<u>\$ 5,525</u>	<u>\$ 16,749</u>

Note 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of October 31, 2018 and 2017:

	2018	2017
Leasehold improvements	\$ 1,337,629	\$ 1,323,448
Boats and equipment	1,325,546	1,159,181
Furniture and fixtures	12,406	12,406
Automobiles	40,631	40,631
Land	700,000	1,421,730
CIP	467,472	89,052
	<u>3,883,684</u>	<u>4,046,448</u>
Less accumulated depreciation	(1,034,307)	(916,226)
	<u>\$ 2,849,377</u>	<u>\$ 3,130,222</u>

Note 6. INTEREST COST CAPITALIZED

The Organization capitalizes interest cost incurred on funds used to finance property acquired for construction and for sale. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$15,663 and \$28,388 during the years ended October 31, 2018 and 2017, respectively.

Note 7. LAND HELD FOR SALE

In 2017, the Organization purchased land at 12 West Creek Road and adopted a plan to split the land into two parcels for purposes of building on one parcel and selling the second parcel. On May 10, 2018, the Organization executed a purchase and sales agreement to sell the second parcel, with the sale expected to close in January 2019. The recorded value of the land of \$721,730 as of October 31, 2018 was compared to the sales price set forth in the purchase and sales agreement reduced by estimated sales costs resulting in the reporting of an impairment loss of \$81,730 included in general and administrative expenses on the accompanying statement of activities and changes in net assets.

NANTUCKET COMMUNITY SAILING, INC.

**NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017**

Note 8. LINE OF CREDIT

The Organization has a line of credit agreement with a bank that allows for maximum borrowings of \$200,000. Borrowing under such notes are due on demand with the agreement reviewable annually. Interest is payable at a per annum rate equal to 1% above the Wall Street Journal Prime Rate, with a floor of 4.25%. The interest rate on the line of credit at October 31, 2018 and 2017 was 6.25% and 5.25%, respectively. There were no borrowings outstanding as of October 31, 2018 and 2017. The line of credit is secured by all business assets of the Organization, except for the land securing the Organization's note payable.

Note 9. LONG-TERM DEBT

Long term debt consisted of the following as of October 31, 2018 and 2017:

	2018	2017
Note payable, bank with monthly payments of interest only at 4.00% for the first 30 months until maturity on June 1, 2019 at which time the remaining balance of the loan is due in a lump sum payment, Such note is secured by land financed by borrowings.	\$ 840,516	\$ 842,388
Commercial term loan, bank dated May 31, 2018 with available borrowings of \$700,000. The loan requires monthly payments of interest only on outstanding borrowings at 4.50% through December 31, 2019, at which time all unpaid principal and interest is due and payable. Such note is secured by the land and improvements financed by borrowings under this note. The Organization has drawn no borrowings on this note as of October 31, 2018.	-	-
Construction loan agreement, bank dated May 31, 2018 with available borrowings of \$1,000,000. The note requires monthly payments of interest at 4.80% until the conversion date of December 31, 2019, at which time principal and interest payments are to be made on a monthly basis until the note's maturity date on May 31, 2038. The rate adjusts every five years to the then current Federal Home Loan Bank Boston 5 Year Classic Advanced rate plus 1.75%. If the loan is paid down to \$800,000 by the conversion date the rate for the remaining period will be reduced by .25%. Such note is secured by the land and improvements financed by borrowings under this note. The Organization has drawn no borrowings on this note as of October 31, 2018.	-	-
	\$ 840,516	\$ 842,388

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017

Note 9. LONG-TERM DEBT (CONTINUED)

Aggregate maturities required on long-term debt as of October 31, 2018 are due in future years as follows:

Year ending October 31	
2019	\$ 840,516

Note 10. TEMPORARILY RESTRICTED NET ASSETS

At October 31, 2018 and 2017, temporarily restricted net assets were available for the following purposes:

	2018	2017
Homeport	\$ 950,088	\$ -
Newhouse scholarship	51,778	53,948
Indian boat	2,100	2,100
Outrigger	2,067	2,067
	\$ 1,006,033	\$ 58,115

Note 11. SPECIAL EVENTS

The following is a summary of the special event revenues and expenses included in the statements of activities and changes in net assets for the years ended October 31, 2018 and 2017:

	2018	2017
Revenue and other support		
Contributions	\$ 365,045	\$ 349,654
In-kind contributions	168,149	189,790
Other revenues earned from special events	310,686	331,183
	843,880	870,627
Special event expenses	540,427	561,544
Change in net assets attributable to special events	\$ 303,453	\$ 309,083

NANTUCKET COMMUNITY SAILING, INC.

**NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017**

Note 12. OPERATING LEASES

The Organization rents its administrative location under a month-to-month agreement at the rate of \$1,500 per month. The Organization rents housing on Nantucket to house certain seasonal employees. Such housing rental agreements expire annually. The Organization also has a ground lease with the Town of Nantucket which was renewed in 2017 for a term of ten years with the option to extend at periods of ten years, not to exceed ninety-nine years, at the rate of \$3,174 annually, which will increase at the end of the term upon CPI during the extension period. At October 31, 2018 and 2017, the CPI adjusted annual rent is \$3,174. The fair value related to the lease has not been determined; therefore, no revenue and expense have been recorded in the statements of activities for the years ended October 31, 2018 and 2017. The total rent expense under these arrangements was approximately \$104,000 and \$100,000 for the years ended October 31, 2018 and 2017, respectively.

Additionally, the Organization has a noncancelable operating lease for an automobile expiring in February 2020. Total rent expense under this agreement was \$5,191 and \$5,669 for the years ended October 31, 2018 and 2017, respectively.

Lastly, the Organization has a noncancelable operating lease for a copier expiring in November 2023. The rent expense under this agreement was \$1,870 for the year ended October 31, 2018.

The following is a schedule by years of future minimum payments on the above noncancelable operating lease:

Years ending October 31	
2019	\$ 10,405
2020	6,512
2021	5,214
2022	5,214
2023	3,344
	<u>\$ 30,689</u>

Note 13. IN-KIND CONTRIBUTIONS

In addition to direct financial support, the Organization is supported by the community in many ways. Contributed services of volunteers are an important part of the resources needed to achieve the Organization's mission.

For the years ended October 31, 2018 and 2017, the Organization received approximately \$165,000 and \$190,000 of donated merchandise used in special events, respectively. For the years ended October 31, 2018 and 2017, the Organization also received donated property that has been capitalized as part of property and equipment in the accompanying statements of financial position valued at approximately \$100,000 and \$290,000, respectively.

NANTUCKET COMMUNITY SAILING, INC.

NOTES TO FINANCIAL STATEMENTS
October 31, 2018 and 2017

Note 14. IN-KIND CONTRIBUTIONS (CONTINUED)

The Organization also has a number of leases and licensing agreements required in its programs to store and repair boats and maintain access to waterways. The Organization pays a nominal amount for such leases and licensing agreements. As the in-kind value of these services is difficult to measure, the Organization has not included them in in-kind contributions.

Note 15. LEASE TERMINATION

The Organization had a lease agreement executed in 2004 that provided for use of certain property for boat storage for a twenty year term at no charge to the Organization. In March 2016, the Organization entered into an agreement with the landlord, where the lease was terminated in exchange for a payment from the landlord to the Organization in the amount of \$50,000. Additionally, the landlord has agreed to provide lift services at no charge for a ten year term for certain of the Organization's boats. The annual value of such fees is estimated at \$4,000 and is included as in-kind contributions and program expenses for that amount for the year ended October 31, 2018. The expectation is that the revenue and expense will be reflected in the Statement of Activities in the year that such services are utilized. The Organization chose not to record an asset for the estimated fair value of these boat lift services at inception of the agreement because of the inherent uncertainty of the Organization's ability to utilize these services in future periods.

Note 16. PARTNERSHIP IN LIMITED LIABILITY CORPORATION

The Organization is a 33% partner in a limited liability corporation called Nantucket Race Week, LLC (NRW). NRW was established as a potential strategic affiliation to operate a regatta on Nantucket. Since its inception, NRW has been inactive, and no transactions were entered into with NRW during the years ended October 31, 2018 and 2017.

Note 17. PENSION PLAN

The Organization established a Simple IRA plan that covers all eligible employees during the year ended October 31, 2018. The Organization makes nonelective contributions to the plan up to a limit of 2% of the employee's salary. The Organization's contributions amounted to \$9,992 and \$5,954 for the years ended October 31, 2018 and 2017, respectively.

Note 18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 12, 2019, the date the financial statements were available to be issued, and determined that there have been no events that have occurred that would require adjustment to the financial statements.

NANTUCKET COMMUNITY SAILING, INC.

**SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended October 31, 2018**

EXPENSES	Program	General and Administrative	Special Events	Fundraising	Total Expenses
Salaries and wages	\$ 468,908	\$ 165,921	\$ 64,926	\$ 21,642	\$ 721,397
Payroll taxes and employee benefits	45,736	24,595	12,225	6,608	89,164
Rent	89,063	18,000	-	-	107,063
Telephone and utilities	24,694	1,414	-	-	26,108
Repairs and maintenance	120,311	-	-	-	120,311
Event costs	7,511	2,549	211,052	5,393	226,505
Credit card processing	14,428	-	14,428	-	28,856
Merchandise	-	-	224,834	-	224,834
Insurance	76,422	-	-	-	76,422
Supplies and other	89,216	26,934	12,962	2,668	131,780
Reserve for uncollectible pledges	500	-	-	-	500
Depreciation	118,081	-	-	-	118,081
Interest expense	-	15,662	-	-	15,662
Property taxes	-	1,455	-	-	1,455
Loss on impairment of land held for sale	-	81,730	-	-	81,730
Total expenses	\$ 1,054,870	\$ 338,260	\$ 540,427	\$ 36,311	\$ 1,969,868

NANTUCKET COMMUNITY SAILING, INC.

**SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended October 31, 2017**

EXPENSES	Program	General and Administrative	Special Events	Fundraising	Total Expenses
Salaries and wages	\$ 425,435	\$ 150,538	\$ 58,906	\$ 19,635	\$ 654,514
Payroll taxes and employee benefits	37,300	27,041	11,737	4,703	80,781
Rent	98,611	18,000	-	-	116,611
Telephone and utilities	22,982	1,153	-	-	24,135
Repairs and maintenance	107,810	-	-	-	107,810
Event costs	58	2,415	228,062	5,111	235,646
Credit card processing	13,412	-	13,412	-	26,824
Merchandise	-	-	242,410	-	242,410
Insurance	61,691	-	-	-	61,691
Supplies and other	97,007	27,711	7,017	2,910	134,645
Reserve for uncollectible pledges	2,280	-	-	-	2,280
Depreciation	118,894	-	-	-	118,894
Total expenses	\$ 985,480	\$ 226,858	\$ 561,544	\$ 32,359	\$ 1,806,241