

USS Missouri Memorial Association, Inc.

Financial Statements

December 31, 2015 and 2014

Together with Independent Auditor's Report



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Directors of
USS Missouri Memorial Association, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of USS Missouri Memorial Association, Inc. (the Association) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2015 and 2014, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

KMH LLP

KMH LLP

Honolulu, Hawaii
May 20, 2016

USS Missouri Memorial Association, Inc.

Statements of Financial Position
December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents	\$ 2,474,863	\$ 2,224,820
Cash, temporarily restricted	80,937	38,403
Cash, restricted for the purchase of equipment and shipboard improvements	65,296	73,632
Accounts Receivable, net of allowance for doubtful accounts of \$5,000 in 2015 and 2014	1,433,122	1,353,771
Merchandise Held for Sale	-	290,405
Prepaid Expenses and Other Assets	259,115	241,308
Investments, board designated for ship preservation	8,321,337	7,419,810
Equipment and Shipboard Improvements, net	<u>19,379,088</u>	<u>19,317,606</u>
Total assets	<u>\$ 32,013,758</u>	<u>\$ 30,959,755</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 300,168	\$ 387,533
Accrued expenses	<u>625,945</u>	<u>485,097</u>
Total liabilities	<u>926,113</u>	<u>872,630</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted:		
Undesignated	22,620,075	22,555,280
Board designated for ship preservation	<u>8,321,337</u>	<u>7,419,810</u>
Total unrestricted	30,941,412	29,975,090
Temporarily restricted	<u>146,233</u>	<u>112,035</u>
Total net assets	<u>31,087,645</u>	<u>30,087,125</u>
Total liabilities and net assets	<u>\$ 32,013,758</u>	<u>\$ 30,959,755</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Activities

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Changes in Unrestricted Net Assets:		
Revenues:		
Ticket sales	\$ 10,583,375	\$ 9,900,845
Commissions	1,283,987	877,390
Investment income	354,338	275,608
Education	238,403	212,008
Contributions	145,974	486,763
Merchandise sales	18,182	1,207,134
Special events and other	572,386	322,084
	<u>13,196,645</u>	<u>13,281,832</u>
Net assets released from restrictions	74,312	32,218
	<u>13,270,957</u>	<u>13,314,050</u>
Expenses:		
Program services	11,068,075	10,744,117
Management and general	817,795	779,823
Fundraising	7,510	9,630
	<u>11,893,380</u>	<u>11,533,570</u>
Net realized and unrealized (losses) and gains on investments	(411,255)	120,042
	<u>966,322</u>	<u>1,900,522</u>
Changes in Temporarily Restricted Net Assets:		
Contributions	108,510	44,825
Net assets released from restrictions	(74,312)	(32,218)
	<u>34,198</u>	<u>12,607</u>
	<u>1,000,520</u>	<u>1,913,129</u>
Net Assets, beginning of year	<u>30,087,125</u>	<u>28,173,996</u>
Net Assets, end of year	<u><u>\$ 31,087,645</u></u>	<u><u>\$30,087,125</u></u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2015 and 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
2015:				
Payroll and related costs	\$ 5,193,495	\$ 570,116	\$ -	\$ 5,763,611
Depreciation	1,524,253	-	-	1,524,253
Utilities	918,564	14,786	-	933,350
Ship operations	710,106	-	-	710,106
Ground transportation	700,861	-	-	700,861
Marketing	628,449	-	-	628,449
Rent	429,438	13,294	-	442,732
Ticketing and reservations	306,025	-	-	306,025
Insurance	289,818	14,877	-	304,695
Professional fees	170,472	60,154	-	230,626
Special events	64,203	-	-	64,203
Safety, health and environmental	44,083	-	-	44,083
Cost of merchandise	8,166	-	-	8,166
Donation expenses	-	-	7,510	7,510
Other	80,142	144,568	-	224,710
	<u>\$ 11,068,075</u>	<u>\$ 817,795</u>	<u>\$ 7,510</u>	<u>\$ 11,893,380</u>
2014:				
Payroll and related costs	\$ 4,849,965	\$ 553,076	\$ -	\$ 5,403,041
Depreciation	1,342,742	-	-	1,342,742
Utilities	1,049,936	13,566	-	1,063,502
Ship operations	783,284	-	-	783,284
Ground transportation	525,112	-	-	525,112
Cost of merchandise	517,277	-	-	517,277
Marketing	448,505	-	-	448,505
Rent	427,926	12,723	-	440,649
Ticketing and reservations	299,437	-	-	299,437
Insurance	288,303	14,245	-	302,548
Professional fees	110,848	59,498	-	170,346
Special events	33,402	-	-	33,402
Donation expenses	-	-	9,630	9,630
Other	67,380	126,715	-	194,095
	<u>\$ 10,744,117</u>	<u>\$ 779,823</u>	<u>\$ 9,630</u>	<u>\$ 11,533,570</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 1,000,520	\$ 1,913,129
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,524,253	1,342,742
Net realized and unrealized loss (gain) on investments	411,255	(120,042)
Changes in certain assets and liabilities:		
Accounts receivable, net	(79,351)	(261,088)
Merchandise held for sale	290,405	(2,274)
Prepaid expenses and other assets	(17,807)	(67,207)
Accounts payable	(87,365)	830
Accrued expenses	140,848	31,989
Net cash provided by operating activities	<u>3,182,758</u>	<u>2,838,079</u>
Cash Flows from Investing Activities:		
Proceeds from the sale of investments in marketable securities	5,454,920	3,670,059
Purchases of investments in marketable securities	(6,767,702)	(5,175,633)
Capital expenditures	<u>(1,585,735)</u>	<u>(2,512,115)</u>
Net cash used in investing activities	<u>(2,898,517)</u>	<u>(4,017,689)</u>
Cash Flows from Financing Activity --		
Net Decrease (Increase) in Cash Restricted for the Purchase of Equipment and Shipboard Improvements	<u>8,336</u>	<u>(10,274)</u>
Net increase (decrease) in cash and cash equivalents	292,577	(1,189,884)
Cash and Cash Equivalents, beginning of year	<u>2,263,223</u>	<u>3,453,107</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,555,800</u>	<u>\$ 2,263,223</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 2,474,863	\$ 2,224,820
Cash, temporarily restricted	<u>80,937</u>	<u>38,403</u>
Total cash and cash equivalents	<u>\$ 2,555,800</u>	<u>\$ 2,263,223</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

1. Organization and Significant Accounting Policies

a. Organization

The USS Missouri Memorial Association, Inc. (the Association) is a not-for-profit organization incorporated in 1994 to establish, operate and maintain a national memorial commemorating the end of hostilities in World War II consisting of the USS Missouri (the Battleship). The Association began significant operating activities and opened the Battleship to visitors on January 29, 1999.

b. Basis of Presentation

The Association maintains its accounting records and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP). In accordance with US GAAP, the Association reports information regarding its financial activities according to three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) based upon the existence or absence of donor-imposed restrictions.

c. Management Estimates

The preparation of financial statements in conformity with US 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 periods. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

The Association maintains its cash and cash equivalents in commercial banks. At December 31, 2015, the Association had approximately \$2,729,000 in excess of federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents. Cash and cash equivalents included in investments, board designated for ship preservation purposes by the Board of Directors are not considered cash equivalents for purposes of the statements of financial position and cash flows.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

1. Organization and Significant Accounting Policies (continued)

e. Investments

The Association's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Note 5 for discussion of fair value measurements).

f. Accounts Receivable

Accounts receivable are primarily generated by wholesale tour and travel companies operating in Hawaii and are stated at the amounts billed, net of an allowance for doubtful accounts. The Association establishes an allowance for doubtful accounts based on historical experience and any specific customer collection issues identified by management. The Association performs ongoing credit evaluations of these wholesalers' financial condition and may require collateral from the wholesalers, if deemed necessary.

g. Cash Restricted for the Purchase of Equipment and Shipboard Improvements

Cash restricted for the purchase of equipment and shipboard improvements has been restricted by donors and is not available for operating activities.

h. Equipment and Shipboard Improvements

Equipment and shipboard improvements are presented at cost if purchased, or estimated fair value if contributed, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the Association's assets as follows:

Shipboard improvements	7 – 25 years
Equipment and fixtures	5 – 7 years

The carrying values of equipment and shipboard improvements are reviewed when circumstances indicate that the carrying amounts may not be recoverable. If the expected future cash flows generated from equipment and shipboard improvements are less than the related carrying value, the carrying value of these assets would be reduced to estimated fair value.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

1. Organization and Significant Accounting Policies (continued)

i. Revenue Recognition

The Association recognizes revenues from ticket sales at the time of admission. Commissions from concessionaires, special events and other revenues are recognized when they are realized or realizable and earned.

j. Contributions and Promises to Give

Contributions are recognized when received or when the donor makes an unconditional promise to give to the Association. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. The Association has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

Contributions for the year ended December 31, 2014 include an unrestricted contribution from a donor of approximately \$365,000. The contribution included an indication for future contributions from the same donor, however, the Association does not have sufficient information to estimate the value of any future amounts to be received at this time.

The Association has unpaid volunteers who assist in performing administrative and maintenance duties and conducting tours. The value of this contributed time does not meet the criteria for financial statement recognition provided by US GAAP and, accordingly, is not reflected in the accompanying financial statements.

k. In-Kind Contributions

In-kind contributions, including depreciable assets, are reflected as unrestricted contributions at their estimated fair values when received by the Association. The Battleship and certain other exhibits were donated by the U.S. Navy and others. The fair values of these contributed exhibits have not been recognized in the accompanying financial statements as their values are not readily determinable. Costs related to placing these exhibits into service are recognized when incurred as a decrease in unrestricted net assets.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

1. Organization and Significant Accounting Policies (continued)

l. Income Taxes

The Association is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), whereby only unrelated business income, as defined by Section 512 (a)(1) is subject to federal income tax. The Association is also exempt under Hawaii Revised Statutes on income related to its exempt purpose. No unrelated business income taxes were incurred during 2015 or 2014. Management has evaluated the Association's tax positions and concluded that the Association has maintained its tax exempt status and has no uncertain tax positions that require recognition or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

m. Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Association is currently evaluating the impact of adopting the new standard on its financial statements.

n. Reclassifications

The Association made reclassifications to certain 2014 balances to conform with groupings and classifications adopted in 2015. The reclassifications had no impact on the Association's net assets or increase in net assets for the year ended December 31, 2014. In addition, the Association reclassified approximately \$364,000 from the amount previously reported as cash and cash equivalents at December 31, 2014 to accounts receivable.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

1. Organization and Significant Accounting Policies (continued)

o. Subsequent Events

The Association has evaluated subsequent events through May 20, 2016, the date on which the financial statements were issued, and it was determined that all subsequent events had been properly accounted for.

2. Merchandise Held for Sale

Merchandise held for sale at December 31, 2014 consisted of the following:

Souvenirs	\$	141,550
Apparel		123,674
Publications		<u>25,181</u>
Merchandise held for sale	\$	<u><u>290,405</u></u>

In January 2015 the Association entered into a five-year agreement with an independent third party to operate the gift shop. As part of the agreement, the third party purchased all the merchandise held for sale from the Association at an agreed upon price that approximated cost at December 31, 2014.

3. Investments

Investments at December 31, 2015 and 2014 consist primarily of mutual funds as follows:

	<u>2015</u>	<u>2014</u>
Cost	\$ 8,177,377	\$ 6,796,278
Gross unrealized gains	106,595	490,854
Gross unrealized losses	<u>(246,660)</u>	<u>(88,844)</u>
Mutual funds at fair value	<u><u>\$ 8,037,312</u></u>	<u><u>\$ 7,198,288</u></u>

The net realized gain (loss) on the sale of investments was \$130,821 and \$(5,159) for the years ended December 31, 2015 and 2014, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

4. Equipment and Shipboard Improvements

Equipment and shipboard improvements at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Shipboard improvements	\$ 21,418,975	\$ 21,184,193
Equipment and fixtures	<u>6,795,310</u>	<u>5,088,193</u>
	28,214,285	26,272,386
Accumulated depreciation	<u>(9,561,368)</u>	<u>(8,517,456)</u>
	18,652,917	17,754,930
Construction in progress	<u>726,171</u>	<u>1,562,676</u>
Equipment and Shipboard Improvements, net	<u><u>\$ 19,379,088</u></u>	<u><u>\$ 19,317,606</u></u>

5. Fair Value Measurements

US GAAP establishes 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). Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access. The Association maintains all its investments in mutual funds, which are valued at Level 1 and are stated at fair value using quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by the Association at the reporting date on a recurring basis.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association 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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

5. Fair Value Measurements (continued)

The following table sets forth the Association's investments by type of fund based on Level 1 inputs as of December 31:

	2015	2014
Mutual funds:		
Intermediate Term Bond	\$ 1,886,681	\$ 1,674,629
Large Blend	1,625,949	1,402,804
Large Value	1,041,066	903,903
Foreign Large Blend	912,139	792,207
Short-Term Government	603,456	514,221
Large Growth	384,949	336,749
Pacific/Asia Ex-Japan Stock	256,990	243,336
Mid-Cap Value	255,226	226,902
Diversified Emerging Markets	243,123	229,126
Mid-Cap Growth	241,035	232,952
Global Real Estate	185,282	161,769
World Bond	168,560	145,773
Foreign Small/Mid Growth	161,268	137,570
Bank Loan	44,472	45,750
High Yield Bond	27,116	29,418
Natural Resources	-	121,179
Total mutual funds at fair value	8,037,312	7,198,288
Money market funds	276,752	213,300
Accrued interest	6,361	7,286
Cash	912	936
Investment in Marketable Securities, board designated for ship preservation	<u>\$ 8,321,337</u>	<u>\$ 7,419,810</u>

6. Net Assets

a. Unrestricted

Unrestricted net assets include undesignated net assets as well as those designated for specific purposes by the Association's Board of Directors. The Board of Directors has designated approximately \$8.3 million and \$7.4 million as of December 31, 2015 and 2014, respectively, in the Ship Preservation Fund, for the purpose of funding future preservation and major maintenance projects for the Battleship.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

6. Net Assets (continued)

b. Temporarily Restricted

Temporarily restricted net assets at December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash restricted for the following:		
Shipboard improvements and displays	\$ 65,296	\$ 73,632
Educational purposes	<u>80,937</u>	<u>38,403</u>
Temporarily restricted net assets	<u>\$ 146,233</u>	<u>\$ 112,035</u>

Temporarily restricted net assets released from restrictions during the years ended December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Restrictions satisfied by expenditures for:		
Educational purposes	\$ 61,574	\$ 32,118
Shipboard improvements and displays	<u>12,738</u>	<u>100</u>
Temporarily restricted net assets released from restrictions	<u>\$ 74,312</u>	<u>\$ 32,218</u>

7. Employee Benefit Plan

Substantially all full-time employees of the Association are eligible to participate in the Association's 401(k) retirement savings plan upon completion of one year of service. The plan provides for discretionary employee and employer contributions up to defined limits. For the years ended December 31, 2015 and 2014, the Association made employer contributions of approximately \$53,000 and \$45,000, respectively.

8. Commitments and Contingencies

a. Operating Agreements

The Association has an agreement with a company to provide ground transportation for visitors to the Battleship through 2016. Ground transportation fees, based upon fixed hourly rates, were approximately \$701,000 in 2015 and \$525,000 in 2014 and are included in Program Services in the accompanying Statements of Activities.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2015 and 2014

8. Commitments and Contingencies (continued)

b. Litigation

In the normal course of conducting its activities, the Association may be subject to various claims and litigation. Management believes that the resolution of these matters will not have a material adverse effect on the Association's financial position, results of operations or cash flows.

c. Operating Leases

The Association acts as lessor in leasing space to merchandise, food and beverage and photo concessionaires under the terms of certain operating leases. The leases provide for minimum or percentage rents based on visitor counts or net revenues, as defined in the agreements, ending at various dates through December 31, 2019. Percentage rents from these leases are reported as commission income for the years ended December 31, 2015 and 2014.

In 2011, the Association and the U.S. Navy entered into an operating lease agreement through December 31, 2015 for pier and building space on Ford Island where the Battleship is berthed. In December 2015, the lease was extended through the earlier of June 30, 2016 or the execution of a succeeding lease. The Association is currently in discussion with the U.S. Navy to extend the operating lease beyond June 30, 2016.