

USS Missouri Memorial Association, Inc.

Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 9, 2018

USS Missouri Memorial Association, Inc.

Statements of Financial Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 565,905	\$ 1,699,421
Cash, temporarily restricted	32,334	83,562
Accounts Receivable, net of allowance for doubtful accounts of \$5,000 in 2017 and 2016	1,704,379	1,792,157
Prepaid Expenses and Other Assets	421,732	436,160
Total current assets	<u>2,724,350</u>	<u>4,011,300</u>
Board Designated or Restricted for Long-Term Purposes:		
Cash, restricted for the purchase of equipment and shipboard improvements	39,850	39,600
Cash and investments, board designated for ship preservation	15,208,130	13,322,402
Total assets board designated or restricted for long-term purposes	<u>15,247,980</u>	<u>13,362,002</u>
Equipment and Shipboard Improvements, net	<u>22,524,226</u>	<u>18,929,016</u>
Total assets	<u><u>\$ 40,496,556</u></u>	<u><u>\$ 36,302,318</u></u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts Payable	\$ 1,878,205	\$ 827,973
Accrued Expenses	783,598	809,903
Total current liabilities	<u>2,661,803</u>	<u>1,637,876</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted:		
Undesignated	30,213	2,289,862
Cash and investments, board designated for ship preservation	15,208,130	13,322,402
Invested in equipment and shipboard improvements	22,524,226	18,929,016
Total unrestricted	37,762,569	34,541,280
Temporarily restricted	72,184	123,162
Total net assets	<u>37,834,753</u>	<u>34,664,442</u>
Total liabilities and net assets	<u><u>\$ 40,496,556</u></u>	<u><u>\$ 36,302,318</u></u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Activities

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets:		
Revenues:		
Ticket sales	\$ 12,060,908	\$ 11,896,712
Commissions	1,381,279	1,445,967
Special events and other	741,789	535,263
Education	250,704	310,864
Contributions	115,430	1,012,410
Total unrestricted revenues	<u>14,550,110</u>	<u>15,201,216</u>
Net assets released from restrictions	<u>66,358</u>	<u>76,000</u>
Total unrestricted revenues and other support	<u>14,616,468</u>	<u>15,277,216</u>
Expenses:		
Program services	11,822,118	11,412,127
Management and general	1,066,228	978,979
Fundraising	80,230	1,748
Total expenses	<u>12,968,576</u>	<u>12,392,854</u>
Unrestricted revenues and support less expenses	1,647,892	2,884,362
Investment income and net realized and unrealized gains on investments board designated for ship preservation	<u>1,573,397</u>	<u>715,506</u>
Increase in unrestricted net assets	<u>3,221,289</u>	<u>3,599,868</u>
Changes in Temporarily Restricted Net Assets:		
Contributions	15,380	52,929
Net assets released from restrictions	<u>(66,358)</u>	<u>(76,000)</u>
Decrease in temporarily restricted net assets	<u>(50,978)</u>	<u>(23,071)</u>
Increase in net assets	3,170,311	3,576,797
Net Assets, beginning of year	<u>34,664,442</u>	<u>31,087,645</u>
Net Assets, end of year	<u>\$ 37,834,753</u>	<u>\$ 34,664,442</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Functional Expenses

For the Years Ended December 31, 2017 and 2016

	Program Services	Management and General	Fundraising	Total
2017:				
Payroll and related costs	\$ 5,628,072	\$ 773,555	\$ -	\$ 6,401,627
Depreciation	1,621,719	-	-	1,621,719
Ship operations	1,001,720	-	-	1,001,720
Ground transportation	755,956	-	-	755,956
Rent	752,083	19,626	-	771,709
Marketing	562,339	-	-	562,339
Utilities	378,060	14,837	-	392,897
Insurance	340,784	16,839	-	357,623
Ticketing and reservations	333,952	-	-	333,952
Safety, health and environmental	173,005	-	-	173,005
Professional fees	118,828	61,729	-	180,557
Special events	60,905	-	-	60,905
Donation expenses	-	-	80,230	80,230
Other	94,695	179,642	-	274,337
	<u>\$ 11,822,118</u>	<u>\$ 1,066,228</u>	<u>\$ 80,230</u>	<u>\$ 12,968,576</u>
2016:				
Payroll and related costs	\$ 5,429,962	\$ 719,014	\$ -	\$ 6,148,976
Depreciation	1,584,845	-	-	1,584,845
Ship operations	785,063	-	-	785,063
Utilities	735,006	14,750	-	749,756
Ground transportation	720,986	-	-	720,986
Marketing	711,057	-	-	711,057
Rent	433,071	17,374	-	450,445
Insurance	327,008	14,737	-	341,745
Ticketing and reservations	334,796	-	-	334,796
Professional fees	124,089	64,005	-	188,094
Special events	75,458	-	-	75,458
Safety, health and environmental	53,304	-	-	53,304
Donation expenses	-	-	1,748	1,748
Other	97,482	149,099	-	246,581
	<u>\$ 11,412,127</u>	<u>\$ 978,979</u>	<u>\$ 1,748</u>	<u>\$ 12,392,854</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 3,170,311	\$ 3,576,797
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,621,719	1,584,845
Net realized and unrealized gain on investments	(1,057,465)	(424,434)
Gain on sale of equipment	(1,800)	(7,924)
Changes in certain assets and liabilities:		
Accounts receivable, net	87,778	(359,035)
Prepaid expenses and other assets	14,428	(177,045)
Accounts payable	311,658	527,805
Accrued expenses	(26,305)	183,958
Net cash provided by operating activities	<u>4,120,324</u>	<u>4,904,967</u>
Cash Flows from Investing Activities:		
Capital expenditures	(4,478,355)	(1,156,849)
Purchases of investments board designated for ship preservation	(3,004,848)	(9,425,896)
Sales of investments board designated for ship preservation	2,176,585	4,849,265
Proceeds from sale of equipment	1,800	30,000
Net cash used in investing activities	<u>(5,304,818)</u>	<u>(5,703,480)</u>
Cash Flows from Financing Activity --		
Net (Increase) Decrease in Cash Restricted for the Purchase of Equipment and Shipboard Improvements	(250)	25,696
Net decrease in cash and cash equivalents	(1,184,744)	(772,817)
Cash and Cash Equivalents, beginning of year	<u>1,782,983</u>	<u>2,555,800</u>
Cash and Cash Equivalents, end of year	<u>\$ 598,239</u>	<u>\$ 1,782,983</u>
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 565,905	\$ 1,699,421
Cash, temporarily restricted	32,334	83,562
Total cash and cash equivalents	<u>\$ 598,239</u>	<u>\$ 1,782,983</u>
Supplemental Disclosure of Non-Cash Activity --		
Capital Expenditures included in Accounts Payable	<u>\$ 738,574</u>	<u>\$ -</u>

See accompanying notes to financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

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, 2017, the Association had approximately \$3,365,000 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 and certificates of deposit included in investments have been designated by the Board of Directors (the Board), and 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, 2017 and 2016

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 4 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.

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.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

1. Organization and Significant Accounting Policies (continued)

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.

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.

l. Board Designated Net Assets

Board designated net assets consist of amounts expended on ship equipment and improvements and amounts that have been designated by the Board for ship preservation purposes and other long-term strategic initiatives. The Board can re-designate these net assets at its discretion.

m. 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 2017 or 2016.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

1. Organization and Significant Accounting Policies (continued)

m. Income Taxes (continued)

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. Interest and penalties, if any, are recognized in management and general expense.

The Tax Cuts and Jobs Act (TCJA) was enacted on December 22, 2017. The TCJA includes significant changes to the US individual and corporate income tax system, including changes to the computation of unrelated business taxable income (UBTI) of tax-exempt organizations and the inclusion of UBTI for an exempt organization's nondeductible entertainment and fringe benefit costs. The Association is currently evaluating the impact that the passage of the TCJA may have on the Association's operations.

n. 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. 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. ASU 2016-02 will be effective for the Association for the year ending December 31, 2020. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 will be effective for the Association on a modified retrospective basis for the year ending December 31, 2018, with early adoption permitted. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

1. Organization and Significant Accounting Policies (continued)

n. Recently Issued Accounting Pronouncements (continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Association beginning on January 1, 2019 and must be applied using a retrospective transition method with early adoption permitted. The Association is currently evaluating the impact the adoption of this guidance will have on its financial statements.

o. Subsequent Events

The Association has evaluated subsequent events through May 9, 2018, the date on which the financial statements were issued, and it was determined that all subsequent events had been properly accounted for.

2. Board Designated Cash and Investments

Cash and investments board designated for ship preservation are carried at fair value at December 31, 2017 and 2016, and consist primarily of investments in mutual funds as follows:

	2017	2016
Mutual Funds:		
Cost	\$ 11,083,224	\$ 9,783,925
Gross unrealized gains	1,165,943	400,970
Gross unrealized losses	(50,182)	(181,767)
Mutual Funds, at fair value	12,198,985	10,003,128
Cash and Certificate of Deposit	2,806,235	3,104,566
Money Market Funds, at fair value	193,293	206,429
Accrued Interest	9,617	8,279
Total cash and investments, board designated for ship preservation	<u>\$ 15,208,130</u>	<u>\$ 13,322,402</u>

The net realized gain on the sale of investments was \$160,907 and \$65,166 for the years ended December 31, 2017 and 2016, respectively.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

3. Equipment and Shipboard Improvements

Equipment and shipboard improvements at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Shipboard improvements	\$ 22,718,312	\$ 22,091,507
Equipment and fixtures	<u>7,762,824</u>	<u>6,778,289</u>
	30,481,136	28,869,796
Accumulated depreciation	<u>(12,300,868)</u>	<u>(10,685,911)</u>
	18,180,268	18,183,885
Construction in progress	<u>4,345,781</u>	<u>745,131</u>
Equipment and Shipboard Improvements, net	<u><u>\$ 22,526,049</u></u>	<u><u>\$ 18,929,016</u></u>

4. 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, 2017 and 2016

4. 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:

	2017	2016
Mutual Funds:		
Intermediate Term Bond	\$ 4,091,605	\$ 3,393,302
Large Blend	3,030,301	2,375,095
Foreign Large Blend	1,688,819	1,385,210
Large Value	1,335,827	1,157,378
Large Growth	632,280	497,788
Mid-Cap Value	494,007	398,124
Mid-Cap Growth	450,083	388,446
Foreign Small/Mid Growth	277,319	225,785
Diversified Emerging Markets	99,861	90,438
Pacific/Asia Ex-Japan Stock	98,883	91,562
Total mutual funds at fair value	12,198,985	10,003,128
Cash and Certificate of Deposit	2,806,235	3,104,566
Money Market Funds	193,293	206,429
Accrued Interest	9,617	8,279
Total cash and investments, board designated for ship preservation	<u>\$ 15,208,130</u>	<u>\$ 13,322,402</u>

5. 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 \$15.2 million and \$13.3 million as of December 31, 2017 and 2016, respectively, in the Ship Preservation Fund, for the purpose of funding future preservation and major restoration projects for the Battleship.

The Association is accumulating funds for the purpose of conducting a dry docking of the ship in or near the year 2030. The last time the ship was dry docked was in 2010 for a cost of \$12.5 million. It is estimated that the next dry docking will cost between \$25 and \$30 million. This work is required every 20 to 25 years for permanently moored ships in order to paint and repair the hull of the ship below the waterline.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

5. Net Assets (continued)

b. Temporarily Restricted

Temporarily restricted net assets at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash restricted for the following:		
Educational purposes	\$ 32,334	\$ 83,562
Shipboard improvements and displays	<u>39,850</u>	<u>39,600</u>
Temporarily restricted net assets	<u>\$ 72,184</u>	<u>\$ 123,162</u>

Temporarily restricted net assets released from restrictions during the years ended December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Restrictions satisfied by expenditures for:		
Educational purposes	\$ 65,678	\$ 71,355
Shipboard improvements and displays	<u>680</u>	<u>4,645</u>
Temporarily restricted net assets released from restrictions	<u>\$ 66,358</u>	<u>\$ 76,000</u>

6. 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, 2017 and 2016, the Association made employer contributions of approximately \$69,000 and \$66,000, respectively. Effective January 1, 2018, full time employees are allowed to participate in the Association's 401(k) retirement saving plan upon completion of six months of service. The Plan was amended to allow employees to contribute up to \$18,000 (or \$24,000, if the employee is over the age of 50), and allow discretionary employer matching up to 4 percent.

USS Missouri Memorial Association, Inc.

Notes to Financial Statements
December 31, 2017 and 2016

7. Commitments and Contingencies

a. Operating Agreements

The Association has an agreement with a company to provide ground transportation for visitors to the Battleship through 2019. Ground transportation fees, based upon fixed hourly rates, were approximately \$756,000 in 2017 and \$721,000 in 2016 and are included in Program Services in the accompanying Statements of Activities.

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 gross revenues, as defined in the agreements, ending at various dates through December 31, 2019. Percentage rents from these leases are reported as commission income on the accompanying Statements of Activities for the years ended December 31, 2017 and 2016 and amounted to approximately \$1,381,000 and \$1,446,000, respectively.

In March 2017, the Association signed a new 25-year lease with the U.S. Navy which is effective January 1, 2017 through December 31, 2041. The new lease requires estimated monthly payments of rent totaling \$35,000, which are trued up on an annual basis to equal an annual rent of six percent of the Association's ticket sales revenue as defined in the lease. Total rent expense recognized for the years ended December 31, 2017 and 2016 was approximately \$724,000 and \$410,000, respectively.

The Association also receives credit towards the rent payments due for in-kind services provided by the Association to the U.S. Government. These credits totaled approximately \$246,000 and are reported as special events revenue for the year ended December 31, 2017.

d. Construction Commitments

As of December 31, 2017, the Association is committed to approximately \$51,000 under construction contracts for various restoration and preservation work on the Battleship.